Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019
Olympia, Washington



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Washington State Investment Board

Washington State Department of
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STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

October 30, 2019

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature
Director of the Office of Financial Management
Washington State Citizens
Olympia, Washington

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2019.

L&I is fully responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program's financial statements for the year ended June 30, 2019. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements the information provided in this letter of transmittal and should be read together with it.

MAJOR INITIATIVES

The Department of Labor & Industries has implemented a number of major initiatives during the last several years that have significantly improved the way we partner with employers, employees and providers to help injured workers heal and return to work. Each of these changes has helped ensure that injured workers get quality return-to-work services and medical treatment and stay on the job, which has reduced disability and saved millions of dollars.

Between 2012 and 2018, L&I successfully reduced long-term disability (claims receiving benefits for more than 12 months) by more than 22 percent and time-loss duration by 18 percent. As a result, the estimated future medical and disability benefit liabilities have been reduced by more than $2.6 billion. These decreases are partially due to claim managers engaging Vocational Rehabilitation Counselors (VRCs) earlier to help injured workers establish a clear path to return to work. The average number of days it took for an injured worker in Washington to be referred to a VRC has dropped 176 days from 2013 to 2018. The claim managers are referring to VRCs more quickly, because they've received training to identify and address return-to-work barriers in early calls to the claimant. They also receive prompts for action when claims have certain characteristics that put them at increased risk for long-term disability. As a result, VRCs build early relationships with workers, identify their concerns and return-to-work goals so that they can partner with employers and medical providers to make it easy for the worker to return to work.

L&I has continued to build on the Business Transformation initiatives launched in fiscal year 2017 to align our people, processes, and technology, with a focus on meeting the needs of customers. Progress was made in the following areas during fiscal year 2019:

1. **Workers' Compensation Systems Modernization** - L&I is working to replace our antiquated workers' compensation computer systems with a commercial off-the-shelf (COTS) product. A selected COTS vendor is expected to be onsite by spring of 2020. The project team is working with subject matter experts to finalize high-level requirements for the new COTS system. The project team will continue its foundational work. The July 2019-June 2021 budget request for continued Workers' Compensation System Modernization has been fully funded.

2. **Provider Credentialing** - A partnership with the Health Care Authority (HCA) will replace L&I's existing medical provider credentialing system with HCA's existing Provider One application. L&I has sent out communications to the medical and service providers letting them know about the new system. In addition, in order to prepare for the switchover, L&I has continued to detect and correct inaccurate, incomplete or corrupt data in certain systems. Expected completion is in early 2020.

3. **Website Redesign** – L&I is assessing, creating, and launching a new Lni.wa.gov website to create a modern website that is easy for customers to use and for L&I to manage. The project team is currently rewriting the content, improving website functionality and accessibility with mobile phones and tablets. Content rationalization is near completion; the team is creating templates for easy access and use and is also customizing some tools for the new web platform. Expected launch is in the fall of 2019.

4. **Enterprise Data Governance** – This project was a formal approach to how the agency defines and makes decisions about data in the course of running our business. The goal was to establish authority and processes to enable effective data management. As of June 30, 2019, this project has been completed, and over 140 L&I employees have been trained as data stewards. They are decision-makers who understand the business data and how that data flows between systems and reports. They serve as points-of-contact for data-related questions in their respective programs. This project includes new internal roles, as well as new data policies and procedures.

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system. The workers' compensation program not only collects premiums and pays benefits to injured workers, but also funds the following: Insurance Services, including Claims Management, Health Service Analysis, Fraud, Collections and Audit, Information Services, Employer Services, and Legal Services; Division of Occupational Safety and Health; Safety and Health Assessment and Research for Prevention; Apprenticeship; and Employment Standards and Workplace Rights, to name a few.

L&I's headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. In addition, there are 18 L&I field offices across Washington State that enable us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 108 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund, managed by L&I, until 1971, when the Legislature created an option for qualified employers to self-insure and expanded the scope of coverage to virtually all workers. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund. There are currently 349 active employers who are self-insured, covering close to one-quarter of all workers in Washington.

The State Fund offers an optional financial incentive program, called Retrospective Rating, to help qualifying employers reduce their industrial insurance costs through safety and return-to-work efforts. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but pay additional premiums if their claim costs are higher than expected.

The State Fund Workers' Compensation Program covers approximately 182,000 employers and 3.05 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2019, including both the employer and worker portions, were $2.6 billion. More than 94,000 claims were accepted in fiscal year 2019; about 85 percent of these claims were for medical treatment only and received no compensation for time off work or disability-related benefits. A monthly average of 36,138 claims were active during fiscal year 2019, and 14,386 of these claims were receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2019, vocational rehabilitation retraining plans were completed by 313 injured workers who would not otherwise have been able to return to any type of work after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2017-2019 appropriated budget for administering the Workers' Compensation Program was $743,850,000, which included $680,372,000 that was appropriated to L&I and the remainder for other state agencies. This budget included $24,021,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program, the Division of Occupational Safety and Health (DOSH), and the Washington State Apprenticeship Program. The appropriated administering budget for fiscal year 2019 for the Workers' Compensation Program was $370,142,500, and the portion of the total fiscal year 2019 budget for L&I was $337,418,500.

The benefit expense portions of the accounts that make up the program are non-appropriated and non-allotted. Premiums collected from employers and workers and investment earnings finance the cost of providing medical coverage, time-loss payments, and disability benefits to qualifying individuals sustaining work-related injuries and illnesses, as well as Stay at Work reimbursements and structured settlements.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES - FISCAL YEAR 2019[1]

Washington is the thirteenth largest state, with a population of 7.5 million,[2] and has the tenth largest state economy ($576.62 billion) in the U.S.[3] It is comprised of 11 major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounts for 59.9 percent of the state's non-farm employment (as of April 2019),[4] and an even higher share of the state's Gross Domestic Product (68.3 percent).[5]

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including the world's most and second-most valuable companies: Microsoft ($1.18 trillion) and Amazon ($929 billion).[6] Other Washington-based Fortune 500 companies include Costco, Starbucks, Paccar, Nordstrom, Expedia, Alaska Airlines, Expeditors, Weyerhaeuser, and Fortive.

CURRENT ECONOMIC SITUATION AND OUTLOOK FOR WASHINGTON STATE

Washington was the fastest growing state economy in calendar year 2018, with an annual growth rate of 5.7 percent, followed by Utah (4.3 percent) and Idaho (4.1 percent).[7] Washington was also

[1] Unless otherwise indicated, the cut-off date for all data used in this report was June 1, 2019.
[2] "State Population Totals: 2010-2018", U.S. Census Bureau, December 2018.
[3] "Annual GDP by State", Bureau of Economic Analysis (BEA). Data retrieved on June 17, 2019.
[4] BLS: https://www.bls.gov/eag/eag.wa_seattle_msa.htm
[5] BLS: https://www.bea.gov/data/gdp/gdp-metropolitan-area.

[6] Based on the market cap from Ycharts.com. Market values retrieved on June 17, 2019.
[7] Gross Domestic Product by State: Fourth Quarter and Annual 2018 (see Table 4), BEA, May 1, 2019 https://www.bea.gov/news/2019/gross-domestic-product-state-fourth-quarter-and-annual-2018

recognized as one of the top economies in several state economic and business ranking studies, including the 2019 "Best & Worst State Economies" by WalletHub (ranked 1st)[8] and "Best States 2019" (1st) and "Economy Rankings" (3rd), both by U.S. News and World Report.[9] Real personal income in Washington is projected to grow 4.1 percent, 3.0 percent, and 3.1 percent in fiscal years 2019, 2020, and 2021 respectively.[10]

Washington was ranked 5th among all states in terms of number of jobs added (94,600 jobs) and tied for second place for the year-over-year percent change (2.8 percent).[11] Payroll employment improved in fiscal year 2019, with employers adding 6,742 jobs per month compared to 6,567 jobs per month in fiscal year 2018.[12] Looking ahead, employment growth is projected to slow to 1.9 percent, 1.3 percent, 1.1 percent, and 1.1 percent for fiscal year 2020 to fiscal year 2023.[13] The statewide seasonally adjusted unemployment rate was 4.6 percent in June 2019, slightly higher than the 4.4 percent in the same month last year,[14] and is expected to increase to 5.0 percent by 2023.[15] The jobless rate in the Seattle/Bellevue/Everett metropolitan area ticked down to 3.3 percent in June 2019 from 3.4 percent 12 months earlier.

Washington's credit rating remains in good standing. The most current ratings by Moody's, S&P, and Fitch all indicate the state's General Obligation Bonds as high quality (Aa1/AA+/AA+) with a stable outlook.[16] "However, in the 2017-19 biennium, bond proceeds accounted for approximately 68% of appropriations, the highest portion in the last 30 years."[17] The Debt Affordability Study recently published by the Office of the State Treasurer stated, "We're one of the highest debt per capita states in the nation. It's important people understand that issuing more and more debt every legislative session is not sustainable in the long-term."

According to the CoreLogic report, Washington's home price increases fell sharply from a 9.8 percent annual increase in June 2018 to below 3 percent in May 2019. [18] The median home value in Washington has gone up 5.2 percent over the past year to $387,100 (as of May 31, 2019), but was predicted to rise only 2.4 percent in the next year.[19] In the Seattle/Tacoma/Bellevue metropolitan area, home prices had a net increase of only 0.03 percent in April from the same month last year. This was a major slowing in price appreciation from the year-over-year gain of 13.6 percent in May 2018.[20]

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[8] https://wallethub.com/edu/states-with-the-best-economies/21697.

[9] http://www.usnews.com/news/best-states/rankings/economy.

[10] Table 2.6, "Forecast Comparison", Washington State Economic and Revenue Forecast Council (ERFC), June 2019.

[11] Based on employment change from May 2018 to May 2019. "State Employment and Unemployment Summary – May 2019", BLS, June 21, 2019.

[12] As of July 17, 2019, Employment Security Department (ESD).

[13] Table 2.1, "Washington Economic Forecast Summary", Washington State Economic and Revenue Forecast, ERFC, June 2019.

[14] Nonfarm employment and unemployment rate, seasonally adjusted, ESD, June 2019.

[15] Washington State Economic and Revenue Forecast, ERFC, June 2019.

[16] State Debt Information, January 2019, Washington State Treasurer. (http://www.tre.wa.gov/home/debt-management/debt-information/#toggle-id-3).

[17] Debt Affordability Study Digest 2 Feb 2019, Washington State Treasurer. (http://www.tre.wa.gov/21886-2/).

[18] Data Source: CoreLogic Home Price Index, May 2019.

[19] Data Source: http://www.zillow.com/wa/home-values/.

[20] Data Source: S&P/Case-Shiller WA-Seattle Home Price Index, Federal Reserve Bank of St. Louis.

Despite a massive slide in the equity market in the second quarter of fiscal year 2019, all major indices rebounded and ended fiscal year 2019 with substantial gains. The Dow Jones Industrial Average closed at 26,599.96 on June 28, 2019, a 9.6 percent increase from the last day of fiscal year 2018. The S&P 500 gained 8.2 percent, and Nasdaq Composite was up 6.6 percent in the same period.[21] For the market of fixed income securities, treasury yields on bonds, notes and bills all fell from last year. On June 28, 2019, the average rates for 1-year, 5-year, 10-year, and 30-year treasury constant maturity series were 41, 97, 84, and 45 basis points lower than those recorded on the same day of 2018.[22]

Workers' Compensation Impacts

The projected weakening job growth in the near future will likely result in slower growth in premiums assessed, barring other changes. Workers' compensation exposure is also expected to increase at a slower pace as a result of this changing labor market condition; however, both premium growth and exposure are also affected by business mix. If rates of growth in high-risk industries outpace growth in other sectors, then premiums and exposure may outpace that of the overall labor market. At the industry level, construction was one of the largest contributors to job growth, accounting for more than 12 percent of total state private nonfarm jobs added (May 2018-May 2019).[23] Construction was also projected to be the third-fastest-growing industry, with an average annual employment growth rate of 2.71 percent during 2017-2022, only trailing information (3.57 percent) and transportation (2.76 percent).[24] While this is expected to result in higher total insurance premiums collected, it may also negatively impact workers' compensation costs, given the fact that the construction and transportation industries are normally associated with a higher incidence rate and more severe injuries than most other industries. Other industries that have high incidence rates include manufacturing, health services and social assistance, and retail trade. Annual job growth rates in these industries were projected to range from 0.41 percent (manufacturing) to 2.24 percent (health services and social assistance) during the same 5-year period. The vastly different growth projections for these industries will have mixed impacts on the total premiums and workers' compensation costs alike.

Wage growth picked up the past year, translating into a larger liability increase in time-loss and pension benefits for most workers injured on or before July 1, 2018. These benefits are required to be recalculated each year to reflect the wage inflation (Cost-of-Living-Adjustment, or COLA). In Washington, the average annual wage increased 5.5 percent to $65,301 in 2018.[25] L&I will increase time-loss and pension benefit payments for eligible workers, effective July 1, 2019, based on the 5.5 percent wage inflation rate that was announced by the Employment Security Department on June 12, 2019.

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[21] Data Source: Federal Reserve Bank of St. Louis.

[22] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.

[23] Washington Employment Estimates: https://esd.wa.gov/labormarketinfo/employment-estimates, ESD, June 25, 2019.

[24] Industry Employment Projections, ESD: https://esd.wa.gov/labormarketinfo/projections, June 2019.

[25] Washington Employment Security Department, June 12, 2019: https://esd.wa.gov/newsroom/washingtons-average-wage-tops-65000-in-2018.

The state minimum wage increased to $12.00 per hour in calendar year 2019 and is set to reach $13.50 per hour in calendar year 2020 as a result of the Initiative 1433 passed in November 2016. In some cities, such as Seattle and Tacoma, the local minimum wages were higher than the state rate in 2019.[26] The increase in minimum wages will add costs to the workers compensation system in that the wage replacement benefit paid to eligible minimum wage earners will also increase.

The annual medical inflation rate (based on the Consumer Price Index for Medical Care) was 2.0 percent in June 2019 and has hovered around two percent throughout fiscal year 2019. The inflation index peaked at 4.9 percent annual gain in August and September of 2016, but has decelerated since and declined to 1.5 percent in August 2018, the smallest annual gain since January 1965.[27] While the mix of medical services provided in the workers' compensation system is somewhat different from general medical care, if this low inflation environment continues, it will likely help reduce medical expenses in Washington's workers' compensation system.

A strong equity market brings higher returns on investment for L&I. Although equity only accounted for 13.8 percent of L&I's total investment assets,[28] its high return rate in the last few years has substantially enhanced the agency's overall investment performance. Enhanced performance has helped to build up a healthy contingency reserve, which the agency needs to protect against unexpected large rate fluctuations in the future. Despite the losses in the second quarter of fiscal year 2019, the equity market continued to rise with the Dow, S&P 500 and NASDAQ up 9.6 percent, 8.2 percent, and 6.6 percent, respectively, over the length of fiscal year 2019.[29] While the labor market and the overall economy remained robust toward the end of this fiscal year, the probability of having an economic downturn, or a recession, in the near future has significantly increased,[30] which will ultimately determine how long the current stock market boom can be sustained.

LONG-TERM FINANCIAL PLANNING

The passage of Senate Bill (SB) 6393 in the 2018 legislative session gave L&I flexibility to reduce the pension discount rate. L&I can now have two different pension discount rates for pensions of self-insured employers and for the State Fund. Using the authority granted by SB 6393, the State Fund pension discount rate decreased from 6.1 percent to 4.5 percent during fiscal year 2019. This change increased benefit liabilities by $561 million and decreased the contingency reserve by the same.

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[26] In CY2019, minimum wage in Seattle was between $12.00 and $16.00 depending on firm size and medical benefit provision; Minimum wages in SeaTac and Tacoma were $16.09 and $12.35 per hour respectively.
http://www.seattle.gov/laborstandards/ordinances/minimum-wage
http://www.seatacwa.gov/home/showdocument?id=25356
https://www.cityoftacoma.org/cms/one.aspx?pageId=89891

[27] Data Source: Consumer Price Index for All Urban Consumers: Medical Care, Federal Reserve Bank of St. Louis.

[28] Data Source: Labor & Industries Funds, Thirty-seventh Annual Report 2018, Washington State Investment Board.

[29] Data Source: Federal Reserve Bank of St. Louis.

[30] For example, the U.S. recession probability in the next 12 months according to Reuters jumped from a median estimate of 15 percent polled in June 2018 to 30 percent in June 2019: https://fingfx.thomsonreuters.com/gfx/editorcharts/USA-ECONOMY-POLL/0H001PBJD5BF/index.html. Another survey conducted by National Association for Business Economics (NABE) in February 2019 indicated that 42% of the respondents expected a recession in CY2020. (https://files.constantcontact.com/668faa28001/286fb75e-4f63-46ac-b351-7f6e78c57f67.pdf)

L&I adopted a plan to increase the contingency reserve and decrease the rate used to discount pension liabilities. The progress made on these goals is shown in the table below.

Contingency Reserve History

Fiscal Year	Contingency Reserve % Total Liabilities	Pension Discount Rate (PDR)	Contingency Reserve (in millions)
2014	7.15%	6.50%	$950
2015	8.90%	6.40%	$1,225
2016	10.50%	6.30%	$1,493
2017	21.70%	6.20%	$2,972
2018	24.60%	6.10%*	$3,485
2019	27.46%**	4.50% & 6.00%***	$3,954**

* Pension Discount Rate 6.10% effective 4/1/18

** As of 6/30/19

*** State Fund PDR 4.5% and Self-Insured PDR 6.0% effective 4/1/19

In order to ensure premium rate stability, the Director of Labor & Industries and the Workers' Compensation Finance Committee are currently analyzing the appropriate contingency reserve target as a percent of total liabilities for the Workers' Compensation Fund.

Reinsurance was purchased in fiscal year 2019 to preserve the contingency reserve in the event of a catastrophe. "Reinsurance" is insurance purchased by insurance companies to share the financial risk. In the event of a catastrophe, this insurance will help pay for some benefit and claim expenses within the workers' compensation program. Refer to Note 2 for more detail.

RELEVANT FINANCIAL POLICIES

L&I has an established investment policy designed to maintain solvency of the Workers' Compensation Program's accounts and to keep premium rates stable. The Washington State Investment Board (WSIB) manages the L&I portfolio and meets regularly to make decisions on improving investment results while striking a balance between risk and return.

As part of the fiscal year 2018 asset allocation, the real estate asset class was added; however, no real estate assets have been purchased as of fiscal year 2019. It has taken time to set up the ownership structure and to identify third-party professional firms to externally manage the real estate investments. We anticipate the first real estate investments will occur early in fiscal year 2020.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2018. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the nineth consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

As in the work and service we provide every day, this CAFR represents our commitment to maintain excellence in financial reporting, and the financial statements are in conformance with the highest standards of financial accountability. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of L&I, the Washington State Office of Financial Management, and the Washington State Investment Board.

Sincerely,

Joel Sacks
Director

Victoria Kennedy

Randi Warick
Deputy Director for
Financial Management

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Labor & Industries

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

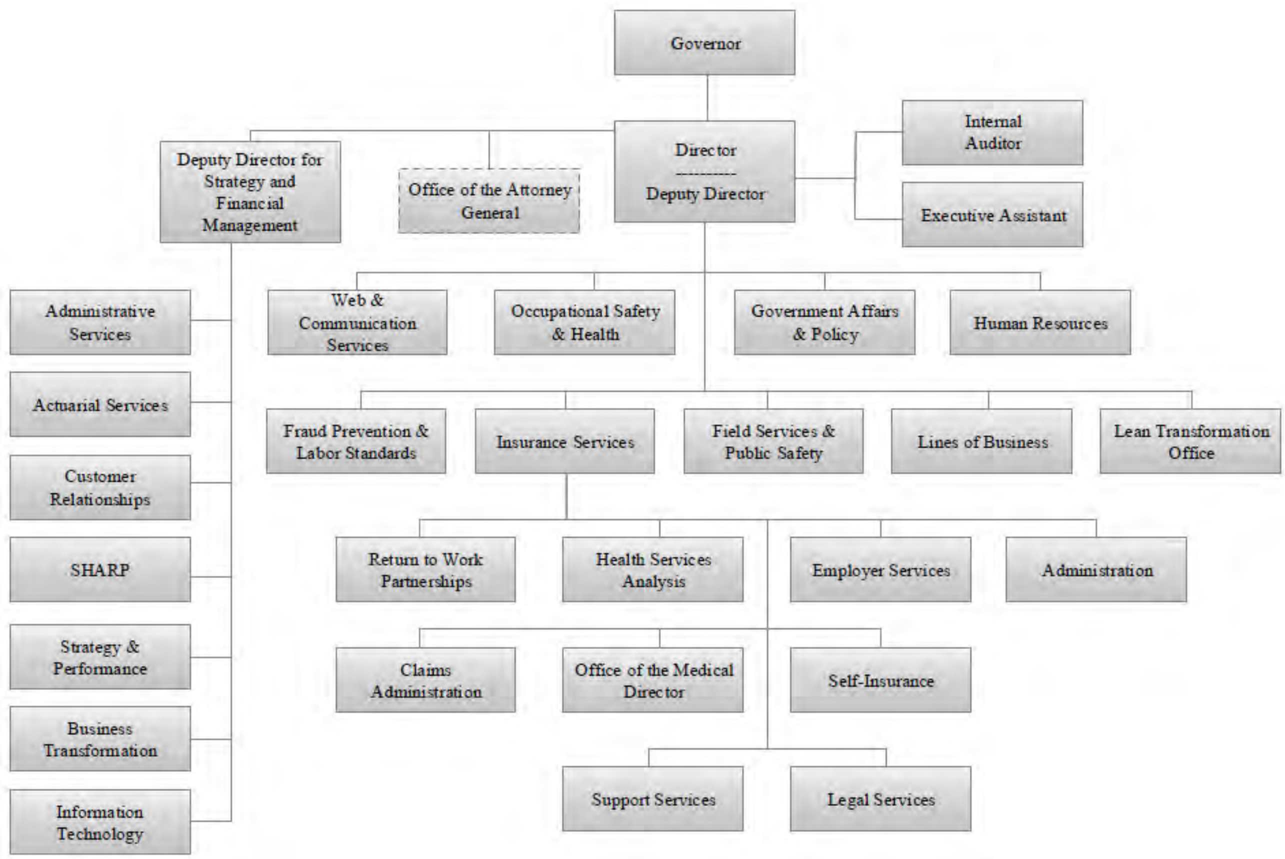
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart

June 30, 2019



Washington State Department of
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Financial Section

Washington State Department of
Labor & Industries

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Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 30, 2019

Mr. Joel Sacks, Director
Workers Compensation Program
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the investments, related investment income, and investment interest receivable. These investments represent 95 percent and 35 percent, respectively, of the assets and total revenues of the program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Labor and Industries' Funds, is based solely on the report of the other auditors.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Program, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements as a whole. The Combining and Individual Account Financial Schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections and the Independent Actuarial Opinion are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Program. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 30, 2019, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington's Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2019. The information included here should be considered along with the transmittal letter, which can be found on pages 3-11 of this report, and the accompanying basic financial statements and notes to the basic financial statements, which follow this narrative.

Financial Highlights

- Total assets increased $1,534 million from the prior fiscal year, mainly due to an increase in investments of $1,745 million, partially offset by a decrease in premium receivables of $178 million.

- Total liabilities increased $1,378 million from the prior year. The increase is largely due to increases in claims payable and accrued liabilities of $1,393 and $64 million, respectively, partially offset by a decrease of $41 million in obligations under securities lending agreements.

- Total revenues earned increased $1,088 million, mainly due to earnings on investments.

- Total expenses incurred increased $330 million from the prior year, primarily due to a $301 million increase in claims expense.

- Total net deficit decreased $126 million from the prior year, mainly due to an increase in fixed income investment unrealized gains.

Overview of the Basic Financial Statements

The Workers' Compensation Program is accounted for as an enterprise fund of the state of Washington, reporting business activities under the accrual basis of accounting, much like a private business enterprise.

These basic financial statements report the financial condition and results of operations for seven accounts: the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, Self-Insured Employer Overpayment Reimbursement, and Industrial Insurance Rainy Day Fund Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts represent the Workers' Compensation Program Industrial Insurance Fund, or Basic Plan.

For the fiscal year ended on June 30, 2019, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information section on pages 99-102 of this report.

This discussion and analysis serves as an introduction to the Workers' Compensation Program's basic financial statements, which consist of the following components:

The Statement of Net Position presents information on the program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It reflects the program's financial position as of June 30, 2019. It can be found on page 35 of this report.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the program's net position changed during the fiscal year. It presents both operating and non-operating revenues and expenses for the fiscal year. It can be found on page 36 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 37 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 39-86 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(dollars in millions)

	June 30, 2019	June 30, 2018	$ Change	% Change
Assets				
Current assets	$ 3,009	$ 2,576	$ 433	16.8%
DOE assets, noncurrent *	5	5	-	0.0%
Investments, noncurrent	16,497	15,389	1,108	7.2%
Capital assets, net	51	58	(7)	(12.1%)
Total Assets	19,562	18,028	1,534	8.5%
Deferred outflows of resources	38	29	9	31.0%
Liabilities				
Current liabilities	2,525	2,567	(42)	(1.6%)
Noncurrent liabilities	27,226	25,806	1,420	5.5%
Total Liabilities	29,751	28,373	1,378	4.9%
Deferred inflows of resources	81	41	40	97.6%
Net Position (Deficit)				
Investment in capital assets	51	58	(7)	(12.1%)
Unrestricted	(10,283)	(10,416)	133	(1.3%)
Total Net Position (Deficit)	$ (10,232)	$ (10,358)	$ 126	(1.2%)

*Noncurrent assets of the U.S. Department of Energy, held in trust

Current assets - Current assets increased by $433 million during fiscal year 2019, largely due to an increase in current investments offset by a decrease in receivables. Current investments increased by $638 million due to more fixed income securities held, which have earlier maturity dates than those held in the prior year. Premium receivables decreased by $178 million, mainly due to premium rate decreases. The Accident Account premium rates decreased 4.5% and 7.5%, respectively, on January 1, 2018 and 2019. The Medical Aid Account premium rates decreased 3.5% and 7.5%, respectively, on January 1, 2018 and 2019. These premium rate decreases were partially offset by premium rate increases in the Supplemental Pension Account of 7.3% and 8.7%, respectively, on January 1, 2018 and 2019.

Noncurrent investments - Noncurrent investments increased by $1,108 million during fiscal year 2019, mainly due to increases in fixed income securities and equity investments. Fixed income securities increased due to reinvestment of interest income and unrealized gains. Equities increased due to a strong stock market.

Current liabilities - Current liabilities, other than claims payable, increased by $29 million during fiscal year 2019, mainly due to an increase of $64 million in accrued liabilities that was partially offset by a decrease of $41 million in security lending collateral. Accrued liabilities increased $64 million, mainly due to an increase in investment trades pending, which changes based on the timing of trading activities. Securities lending transactions fluctuate each year based on borrower demand and market conditions. There was a decrease in borrower demand for fixed income securities lending agreements from fiscal year 2018 to fiscal year 2019.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $29,167 million at the end of fiscal year 2019, an increase of $1,393 million, or 5.0 percent, when compared to the previous fiscal year. The claims administration expense liability increased by $129 million, mainly due to reserving for a portion of the Worker's Compensation System Modernization project, a new claims unit that was passed in the budget, and increases in legal, healthcare, and vocational claims administration costs. The remaining increase is due to a net increase in benefit liabilities. Benefit liabilities increased $1,264 million, as shown by the table below:

Schedule of Changes in Benefit Liabilities (Included in Claims Payable)*
(in millions)

	June 30, 2019	June 30, 2018
Benefit liabilities, beginning of year	$ 27,116	$ 26,033
New liabilities incurred, current year	1,915	1,938
Development on prior years		
Reserve discount accretion	623	805
Change in discount rate**	6	646
Other development on prior liabilities	915	(164)
Claim payments	(2,195)	(2,142)
Change in benefit liabilities	1,264	1,083
Benefit liabilities, end of year	$ 28,380	$ 27,116

* Excludes claims administration expense liabilities

** Includes the discount rate changes from 6.2% to 4.5% (State Fund) and 6.2% to 6.1% (Self-Insurance Program) in fiscal year 2018

It is expected that benefit liabilities will change every year due to normal activities, such as adding the current accident year liabilities, discounting existing liabilities, and paying claims.

This fiscal year, benefit liabilities increased mainly as a result of the following:

- The liabilities in the Supplemental Pension Account increased $1,193 million. The Supplemental Pension Account provides for the cost-of-living adjustments (COLAs) on workers' compensation time loss and pension benefit payments for injured workers insured through both the State Fund and Self-Insurance Program. The COLA calculation is based on the state's average annual wage, which increased 5.5 percent in 2018, as published by the Washington State Employment Security Department.

- The liabilities in the Medical Aid Account increased $122 million, mainly due to more hearing aid replacements and a rule change that reduced the time to replace hearing aids to five years.

- The Workers' Compensation Program reserved for a reduction in the pension discount rate from 6.1 to 4.5 percent in fiscal year 2018. In fiscal year 2019, this $561 million reserve was moved from the Accident Account to the Pension Reserve Account.

- The increase in benefit liabilities was partially offset by favorable development on prior year claims. Each year, the actuaries reassess liabilities based on the most recent information. As a result of this evaluation, the estimate for benefit liabilities in the Accident Account was reduced due to fewer active time-loss claims, reductions in permanent partial disability awards, and lower-than-estimated average award amounts. The Medical Aid Account benefit liability also declined due to lower-than-expected claim counts and lower-than-anticipated medical payments.

Total net position (deficit) - The Workers' Compensation Program's deficit decreased by $126 million during fiscal year 2019, ending with a deficit balance of $10,232 million. This deficit consists of a $14,930 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position (dollars in millions)	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,613	$ 2,725	$ (112)	(4.1%)
Miscellaneous revenues	54	50	4	8.0%
Total Operating Revenues	2,667	2,775	(108)	(3.9%)
Nonoperating Revenues				
Earnings on investments	1,446	249	1,197	480.7%
Other revenues	10	11	(1)	(9.1%)
Total Revenues	4,123	3,035	1,088	35.8%
Operating Expenses				
Salaries and wages	187	177	10	5.6%
Employee benefits	59	65	(6)	(9.2%)
Personal services	13	15	(2)	(13.3%)
Goods and services	94	87	7	8.0%
Travel	4	4	-	0.0%
Claims	3,588	3,287	301	9.2%
Depreciation	7	8	(1)	(12.5%)
Miscellaneous expenses	45	24	21	87.5%
Total Operating Expenses	3,997	3,667	330	9.0%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	3,997	3,667	330	9.0%
Income (Loss) before Transfers	126	(632)	758	(119.9%)
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	126	(632)	758	(119.9%)
Net Position (Deficit) - Beginning of Year*	(10,358)	(9,726)	(632)	6.5%
Net Position (Deficit) - End of Year	$ (10,232)	$ (10,358)	$ 126	(1.2%)

* Net Position (Deficit) – Beginning of Year for fiscal year ended June 30, 2018, is restated.

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2019 were $2,613 million compared to $2,725 million for fiscal year 2018, a decrease of $112 million. This decrease resulted from composite premium rate decreases in calendar years 2019 and 2018 of 5.0 and 2.6 percent, respectively. The premium rate decreases in the Accident and Medical Aid Accounts resulted from fewer work-related injuries, along with agency initiatives to improve outcomes for injured workers and reduce costs. The Supplemental Pension Account's premium rate increase resulted from a 5.5 percent increase to the state average annual wage.

The Workers' Compensation Program purchased reinsurance for the first time in fiscal year 2019 as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $5.2 million for the purchase of ceded reinsurance (see Note 2 for additional reinsurance information).

Earnings on investments - The earnings on investments increased by $1,197 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity* (dollars in millions)				
	June 30, 2019	June 30, 2018	$ Change	% Change
Fixed Income				
Interest earnings	$ 504	$ 478	$ 26	5.4%
Realized gains (losses)	(23)	39	(62)	(159.0%)
Unrealized gains (losses)	850	(504)	1,354	(268.7%)
Fixed Income Total	1,331	13	1,318	10138.5%
Equities				
Realized gains (losses)	3	1,059	(1,056)	(99.7%)
Unrealized gains (losses)	117	(818)	935	(114.3%)
Equities Total	120	241	(121)	(50.2%)
Total Fixed Income and Equities	$ 1,451	$ 254	$ 1,197	471.3%

*The above does not include investment expenses.

- Interest earnings increased due to additional bonds in the fixed income portfolio, coupled with higher average coupon rates. Interest income, net of expenses, was reinvested in debt securities, and the average coupon rate increased from 3.0 to 3.6 percent in the prior year to 3.1 to 3.7 percent in fiscal year 2019.

- Fixed income realized losses of $23 million for fiscal year 2019 resulted mainly from the sale of Odebrecht bonds. Odebrecht is a construction company in Brazil that has decreased in value due to bribery scandals. When Odebrecht defaulted on their interest payments, the bonds were sold at a loss. Fixed income realized gains of $39 million for fiscal year 2018 resulted mainly from corporate bond recalls. As interest rates increase, some corporations are calling higher-rated bonds and reissuing at lower interest rates.

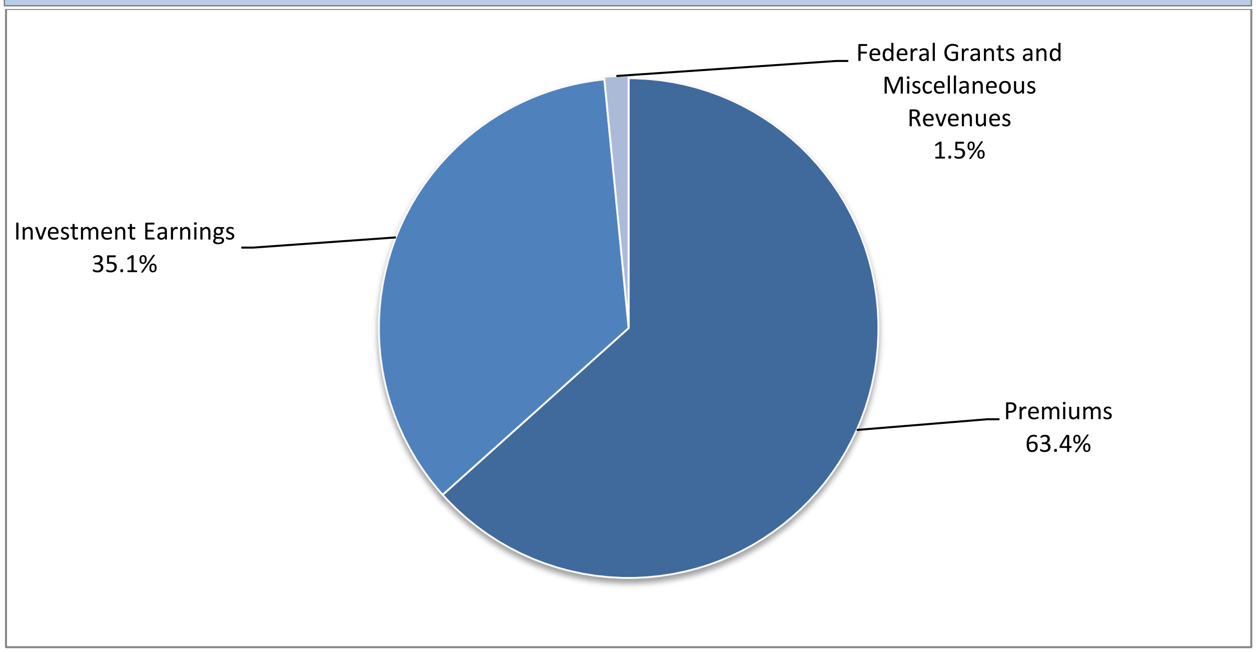
- In fiscal year 2019, the fixed income unrealized gains resulted from lower long-term interest rates, while in fiscal year 2018, the fixed income unrealized losses resulted from rising interest rates. The fair market value of debt securities moves in the opposite direction to changes in interest rates: rising interest rates result in decreasing bond market prices, while falling rates causes bond prices to increase.

- In fiscal year 2018, realized gains in equities resulted from the sale of equities for three reasons. First, U.S. equities were sold and non-U.S. equities were purchased to align with the new asset allocation policy, which changed the U.S./non-U.S. percent mix from 60/40 to 52/48. Second, the equity portfolio was rebalanced in January 2018, because the value of equities exceeded the asset allocation policy guidelines. Third, all Workers' Compensation Program equity assets were moved from two separatelymanaged portfolios (one for the U.S. and one for the non-U.S.) to a single global equity fund. As a result, all equities were sold and repurchased in a global commingled fund under Blackrock.

- During the 2019 fiscal year, the Workers' Compensation Program's equity portfolio returned 5.1 percent, resulting in equity unrealized gains. Anticipated interest rate decreases, as well as solid corporate earnings, fueled optimism despite the China trade war. The $818 million unrealized loss in equities for fiscal year 2018 is mainly due to the sale of the equities that generated the realized gain. When the equities were sold, all unrealized gains in prior years that increased the contingency reserve were removed from unrealized gains and included in realized gains.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2019:

Fiscal Year 2019 Revenues by Source



Claims expense - Claims expense for fiscal year 2019 increased $301 million, or 9.2 percent, as compared to fiscal year 2018. Claims expense includes two main components: payments to beneficiaries, and the change in claims payable.

Claim payments to beneficiaries increased by $41.2 million or 1.9 percent, when compared to the prior year. Increases in claim payments in the Pension Reserve and Supplemental Pension Accounts were partially offset by a decrease in the Accident and Medical Aid Accounts.

The net increase is explained by the following:

- The Pension Reserve Account's claim payments to beneficiaries increased $17.5 million, mostly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

- The Supplemental Pension Account's $41.0 million increase in claim payments to beneficiaries resulted mainly from an increase in the state's average annual wage.

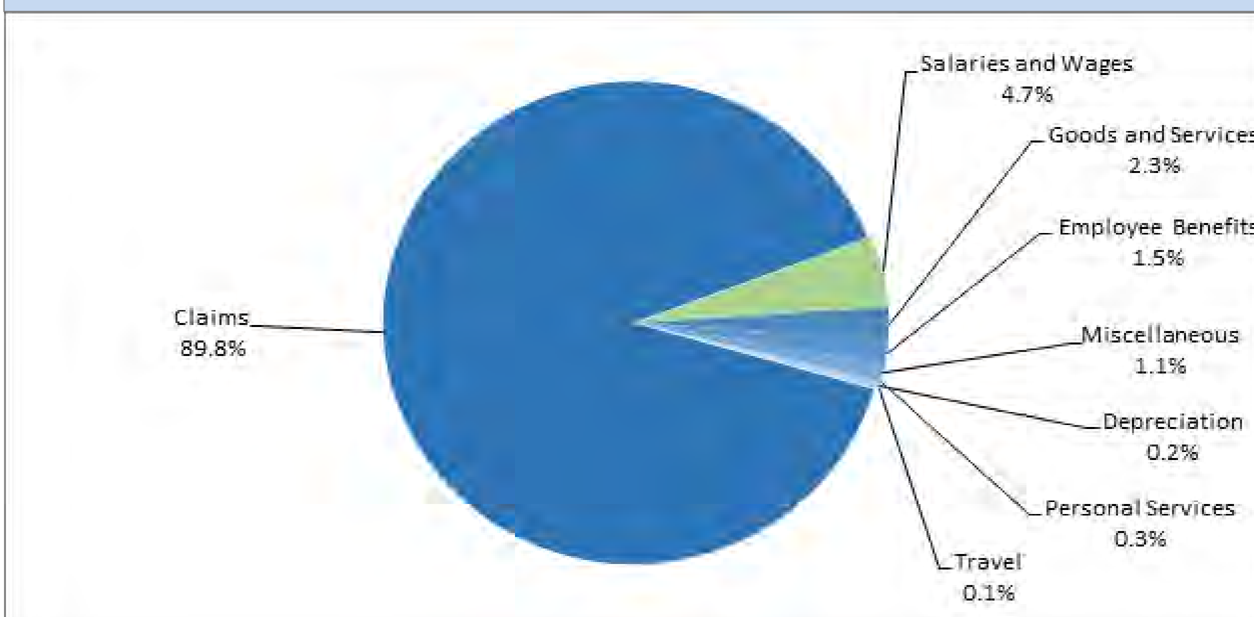
- The Accident Account's $10.9 million decrease in claim payments to beneficiaries resulted primarily from fewer active time-loss claims.

- The Medical Aid Account's $6.7 million decrease in claim payments to beneficiaries resulted mainly from lower older claim counts.

Operating expenses - Operating expenses for fiscal year 2019, other than claims expense, were $410 million, as compared to $380 million in fiscal year 2018. The increase in operating expenses in fiscal year 2019 resulted from increased salaries and wages, goods and services, and miscellaneous expenses. State employee salaries increased due to two percent pay increases for all employees effective July 1, 2018, and January 1, 2019, and from an increase in the number of employees due to implementing new initiatives. Goods and services increased mainly due to the Seattle office move and modernizing the L&I headquarter's elevators and furniture. The increase in miscellaneous expenses is due primarily to bad debt expense.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2019:

Fiscal Year 2019 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2019, were $51 million. The $7 million decrease from the previous year mainly resulted from depreciation expense. Each year, capital assets are expensed over their useful lives. Additional information on capital assets can be found in Note 1.D.7 and Note 6 of this report.

Potentially Significant Matters with Future Impacts

The Workers' Compensation Program has various computer systems that are used for paying benefits and collecting premiums. Many of the systems were built over thirty years ago, and the agency has a goal to replace these systems before they turn forty years old. The legislature approved a 2019-2021 Biennium budget that included $82 million out of the total estimated cost of $309 million to replace the old computer systems that support the Workers' Compensation Program. The seven-year project will simplify the program's technology architecture, replace manual and paperwork processes with electronic features, and free up staff time to focus on further improving services to injured workers and employers.

No real estate investments were purchased in fiscal year 2019, as had been previously expected. It has taken time to set up the ownership structure and to identify third-party professional firms to externally manage the real estate investments. We anticipate the first real estate investments will occur early in fiscal year 2020.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.

In accordance with the Revised Code of Washington (RCW) 51.44.115, L&I also publishes a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles.

The Workers' Compensation Program Comprehensive Annual Financial Report and Statutory Financial Information Report for the Industrial Insurance Fund are also available at L&I's website at https://lni.wa.gov/agency/state-fund-financial-reports.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	58,431,938
Investments, current		2,018,194,120
DOE trust cash and investments		405,134
Collateral held under securities lending agreements		58,468,568
Receivables, net of allowance		867,000,133
Receivables from other state accounts and agencies		600,198
Receivables from other governments		1,463,280
Inventories		163,444
Prepaid expenses		4,370,157
Total Current Assets		3,009,096,972
Noncurrent Assets		
DOE trust receivable		4,481,704
Investments, net of current portion		16,496,600,064
Capital assets, net of accumulated depreciation		51,440,097
Total Noncurrent Assets		16,552,521,865
Total Assets		19,561,618,837
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		27,784,900
Deferred outflow of resources on OPEB		10,177,082
Total Deferred Outflows of Resources		37,961,982
Total Assets and Deferred Outflows of Resources	$	19,599,580,819
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities		
Accounts payable	$	10,886,337
Accrued liabilities		284,943,678
Obligations under securities lending agreements		58,468,568
Net pension liability, current		33,523
Other post-employment benefits, current		2,131,632
Payable to other state accounts and agencies		9,328,993
Due to other governments		176
Unearned revenues		3,492,834
DOE trust liabilities, current		575,450
Claims payable, current		2,155,389,000
Total Current Liabilities		2,525,250,191
Noncurrent Liabilities		
Claims payable, net of current portion		27,011,430,000
Other long-term liabilities		7,238,389
DOE trust long-term liabilities, net of current portion		4,311,388
Other post-employment benefits, net of current portion		113,963,309
Net pension liability, net of current portion		88,616,904
Total Noncurrent Liabilities		27,225,559,990
Total Liabilities		29,750,810,181
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		33,024,297
Deferred inflow of resources on OPEB		48,028,175
Total Deferred Inflows of Resources		81,052,472
NET POSITION (DEFICIT)		
Investment in capital assets		51,440,097
Unrestricted		(10,283,721,931)
Total Net Position (Deficit)		(10,232,281,834)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	19,599,580,819

The notes to the basic financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

OPERATING REVENUES		
Premiums and assessments, net of refunds and reinsurance	$	2,612,752,631
Miscellaneous revenues		53,646,587
Total Operating Revenues		2,666,399,218
OPERATING EXPENSES		
Salaries and wages		186,678,473
Employee benefits		59,202,918
Personal services		13,071,722
Goods and services		93,808,996
Travel		4,597,177
Claims		3,588,197,057
Depreciation		7,407,355
Miscellaneous expenses		44,776,552
Total Operating Expenses		3,997,740,250
Operating Income (Loss)		(1,331,341,032)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		1,446,192,865
Other revenues		10,374,138
Total Nonoperating Revenues (Expenses)		1,456,567,003
Change in Net Position		125,225,971
Net Position (Deficit) at July 1		(10,357,507,805)
Net Position (Deficit) - June 30	$	(10,232,281,834)

The notes to the basic financial statements are an integral part of this statement.

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,602,345,833
Payments to/for beneficiaries		(2,194,061,923)
Payments to employees		(256,310,866)
Payments to suppliers		(107,917,157)
Other		45,775,597
Net Cash Flows from Operating Activities		89,831,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received		10,869,878
License fees collected		110,869
Net Cash Flows from Noncapital Financing Activities		10,980,747
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		(783,805)
Net Cash Flows from Capital and Related Financing Activities		(783,805)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of trust investments		34,214
Receipt of interest and dividends		497,468,255
Investment expenses		(7,571,839)
Proceeds from sale of investment securities		7,943,622,847
Purchases of investment securities		(8,520,605,832)
Net Cash Flows from Investing Activities		(87,052,355)
Net increase in cash and cash equivalents		12,976,071
Cash & cash equivalents, July 1 (includes trust cash of $370,920)		45,861,001
Cash & cash equivalents, June 30 (includes trust cash of $405,134)	$	58,837,072
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(1,331,341,032)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		7,407,355
Change in Assets: Decrease (Increase)		
Receivables		27,221,797
Inventories		(14,098)
Prepaid expenses		(1,785,516)
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		1,392,516,000
Accrued liabilities		(4,173,022)
Net Cash Flows from Operating Activities	$	89,831,484
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	$	967,723,640

The notes to the basic financial statements are an integral part of this statement.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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Note 1 - Summary of Significant Accounting Policies

The accompanying basic financial statements of the Workers' Compensation Program of the state of Washington were prepared in conformity with generally accepted accounting principles (GAAP). The Washington State Office of Financial Management (OFM) is the primary authority for the Workers' Compensation Program's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationwide. The following is a summary of the significant accounting policies:

1.A. Reporting Entity

The Department of Labor & Industries (L&I), an agency of Washington State and a part of the primary government, administers and enforces laws and regulations in accordance with Titles 43 and 51 of the Revised Code of Washington (RCW) and Title 296 of the Washington Administrative Code (WAC). The provisions of Title 51 RCW require all employers, unless excluded or exempted, to secure coverage for job-related injuries and illnesses, either by paying insurance premiums to the Workers' Compensation Program or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

The Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of L&I or the state of Washington. The Workers' Compensation Program's financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, WA 98504-3127. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

The Workers' Compensation Fund consists of the following seven enterprise accounts:

The Accident Account, established on July 1, 1947, per RCW 51.44.010, pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. In addition, the Accident Account pays to the Pension Reserve Account the present value of pensions awarded to workers who are permanently and totally disabled and to the surviving spouse and dependents of fatally injured workers.

Revenues for this account come from employer-paid premiums based on individual employers' reported payroll hours and are reported net of refunds. Employers may elect to have their premiums retrospectively rated, with an annual adjustment for three years following the plan year, based on individual employers' actual losses incurred. This may result in either a refund of premiums paid or an assessment of additional premiums due. The premium adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together. However, retrospective premium adjustments are financed entirely through the Accident Account.

On behalf of injured workers, the Medical Aid Account, established on July 1, 1917, per RCW 51.44.020, pays for the cost of medical services, vocational rehabilitation services, and Stay at Work reimbursements. Revenues for this account come mostly from equal contributions by employers and employees; employers are required to withhold half of their medical aid premiums from their employees' wages.

The Pension Reserve Account, established on July 1, 1911, per RCW 51.44.030, pays benefits to the surviving spouse or dependents of fatally injured workers and to all permanently and totally disabled workers. This includes benefits for pensions awarded to employees of self-insured employers. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

The Industrial Insurance Rainy Day Fund Account, established on June 15, 2011, per RCW 51.44.023, was created to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, the balance in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. This account was first used in fiscal year 2017. Additional information can be found in Note 12 of this report.

The four accounts described above are referred to as the Industrial Insurance Fund, the Workers' Compensation Program Basic Plan, or the State Fund. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis; however, a cash flow basis is used for the surety bond components of the Pension Reserve Account. Self-insured employers have the option to guarantee pension-related benefits with a surety bond or to fund the benefits with cash.

The Supplemental Pension Account, established on July 1, 1971, per RCW 51.44.033, provides for a supplemental cost-of-living-adjustment (COLA) to injured workers or their survivors receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments.

COLA and time-loss payment increases are based on the increase in the state's average wage during the preceding calendar year and become effective in July of the following fiscal year. Revenues for COLA payments arise from assessments to State-Fund-insured and self-insured employers; half of the assessment is deducted from their employees' wages.

The Second Injury Account, established on July 1, 1945, per RCW 51.44.040, is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury and to fund job modifications for some temporarily disabled workers. It is funded by self-insured assessments for self-insured pension claims, transfers from the Accident Account to the Pension Reserve Account for State-Fund-insured pensions, and transfers from the Medical Aid Account to pay for job modification and other claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Accounts' claims liabilities for State-Fund-insured claims. Therefore, the Second Injury Account does not carry any claims liabilities.

The Self-Insured Employer Overpayment Reimbursement Account, established on June 12, 2008, per RCW 51.44.142, reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer assessments.

L&I presents the following basic financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position – This statement presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources for the Workers' Compensation Program, in order of liquidity. Net position is classified into three categories:

- **Net investments in capital assets** – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted** – Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position – This statement presents the activity and changes in net position of the Workers' Compensation Program. Activity is distinguished between operating and non-operating revenues and expenses.

Operating revenues for the Workers' Compensation Program consist mainly of premiums and assessments collected, net of refunds and reinsurance. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating, including interest expense and investment gains and losses.

Statement of Cash Flows – This statement reports cash collections and payments for the Workers' Compensation Program to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

1.C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions and events reported in an account's operating statement. The Workers' Compensation Program's seven accounts are accounted for using the economic resources measurement focus, much like that of a private-sector business. With this measurement focus, all assets and liabilities associated with the operations of the accounts are included in the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position with a focus on transactions and events that have increased or decreased the accounts' total economic resources during the period.

The basis of accounting determines the timing of the recognition of transactions and events. All accounts of the Workers' Compensation Program are reported on using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

Cash and cash equivalents are reported on the accompanying Statement of Net Position and Statement of Cash Flows. Cash includes cash in banks, cash on deposit with the Office of the State Treasurer (OST), and cash on hand. Cash equivalents are pooled investments and include short-term, highly-liquid investments that are both readily convertible to cash and mature within three months of the date acquired.

Under RCW 43.08.015, the OST has the statutory responsibility to ensure the effective cash management of the state's public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments. The OST invests Workers' Compensation Program cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of accounts with surplus pooled balances are not reduced for these investments.

1.D.2. DOE Trust Cash and Investments

Per RCW 51.04.130, the U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program are restricted assets and recorded as "DOE trust cash and investments." The remaining pension liability not covered by DOE trust cash and investments is recorded as "DOE trust receivable."

As of June 30, 2019, trust cash and investments of $405,134, representing the funds on deposit for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position. There were no noncurrent trust investments in 2019.

1.D.3. Investments

Current and noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services.

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2019, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

The Workers' Compensation Program uses the allowance method for establishing an allowance for uncollectible receivables. Management regularly reviews receivables and adjusts the allowance based on weighted average percentages calculated from a historical analysis of past collection activity. The allowance percentages are determined based on aging category and collection activity for each receivable. Interest accrues on overdue accounts receivable at the rate of one percent per month. When an account is deemed uncollectible, it is written off against the allowance; however, such accounts are not forgiven until allowed by law. The Workers' Compensation Program does not require collateral for its accounts receivable, except for self-insurance pension receivables.

The Workers' Compensation Program establishes claims liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not resolved and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of benefit involved. Because actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the actual ultimate claim costs may differ from the estimates. In accordance with GASB Statement No.10, the claims liabilities are reported net of recoveries.

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

The benefit and claims administrative expense liabilities are discounted to reflect the time value of money using an average discount rate of 2.17 percent. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rate. The Medical Aid and Supplemental Pension Accounts are discounted at 1.5 percent; the Pension Reserve Account is discounted at two different rates: the State Fund portion is discounted at 4.5 percent and the Self-Insurer portion is discounted 6.0 percent. For the Accident Account, combinations of discount rates are used: the future total permanent disability and fatal transfer amounts made to the Pension

Account assume a discount rate of 4.5 percent, and the transfer payments and all other liabilities are discounted at 1.5 percent.

The actuaries estimate accrued retrospective premium annual adjustments for unadjusted enrollment periods by reviewing historical participation and return patterns. The historical averages are used to arrive at an estimate of net retrospective return premiums for unadjusted periods. Cumulative return premiums for periods from the first annual adjustment through the third annual adjustment are system-generated, and the accruals are the difference between the cumulative returns and the amount already returned. The third annual retrospective adjustment is final. Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability in the Accident Account.

1.D.5 Reinsurance

The Workers' Compensation Program purchased catastrophe reinsurance for risks in excess of its retention on the workers' compensation insurance policy to reduce its exposure to the financial risks associated with a catastrophe. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Workers' Compensation Program as the direct insurer of the risks reinsured.

Amounts that are recoverable from reinsurers and that relate to paid claims and claim adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claim adjustment expenses are deducted from those liabilities. Ceded unearned premiums are netted with related unearned premiums. Receivables and payables from the same reinsurer, including amounts withheld, are netted. Reinsurance premiums ceded and reinsurance recoveries on claims are netted against related earned premiums and incurred claim costs in the statement of revenues, expenses, and changes in net position.

1.D.6. Inventories and Prepaid Expenses

Consumable inventories consisting of expendable materials and supplies held for consumption are valued and reported in the Statement of Net Position at weighted average cost if the fiscal year-end balance on hand at an inventory control point exceeds $50,000. The Workers' Compensation Program expenses consumable inventories when used.

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2019, prepaid expenses amounted to $4,370,157.

1.D.7. Capital Assets

Capital assets are tangible or intangible assets held and used in the Workers' Compensation Program's operations which have a service life of more than one year and meet the state's capitalization policy. In accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater
- Infrastructure with a cost of $100,000 or greater
- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater that are "identifiable" by meeting either of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable
- All capital assets acquired with a Certificate of Participation
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted

Capital assets are recorded at cost. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized.

The value of assets constructed for use in the Workers' Compensation Program includes all direct construction costs and indirect costs, such as agency project management costs, that are related to the construction. Net interest cost incurred during the period of construction, if material, is capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of capital assets that have been disposed of are removed from the accounting records.

Generally, estimated useful lives are as follows:

- Buildings and building components — 5 to 50 years
- Furnishings, equipment, and collections — 3 to 50 years
- Other improvements — 3 to 50 years

- Infrastructure 20 to 50 years
- Intangible assets with definite useful lives 3 to 50 years

1.D.8. Compensated Absences

Workers' Compensation Program employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the Workers' Compensation Program does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Workers' Compensation Program is liable for 25 percent of the employee's accumulated sick leave. In addition, the Workers' Compensation Program has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

The Workers' Compensation Program recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and applicable benefits, as the leave is earned. It is the Workers' Compensation Program's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

1.E. Other Information

1.E.1. Risk Management

The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. Coverage is provided up to $10 million for each claim with no deductible. Commercial insurance is purchased for various liabilities and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten fiscal years. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties.

The Workers' Compensation Program participates in the state's self-insurance liability program, in proportion to its anticipated exposure to liability losses, to manage its various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

1.E.2. Interfund/Interagency Activities

The Workers' Compensation Program engages in reciprocal and non-reciprocal interfund/interagency activities that may include an element of indirect cost. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions. Non-reciprocal activity is non-exchange in nature and includes both transfers and reimbursements.

Note 2 – Reinsurance

Catastrophic reinsurance was purchased by the Accident and Medical Aid accounts within the Workers' Compensation Program in February 2019 to reduce its exposure to the financial risks associated with a catastrophe. Catastrophic reinsurance allows the Workers' Compensation Program to shift some of the risk associated with providing workers compensation insurance in exchange for a portion of the premiums that it receives.

Catastrophes are extremely rare events, and purchasing catastrophic reinsurance was a carefully considered decision by the Workers' Compensation Program. When catastrophes do occur the amount of damages they cause can be significant. Without reinsurance, claims made after a catastrophe would come from Workers' Compensation Program's contingency reserve, operating cash flows, debt financing, or from liquidating assets.

The existence of ceded reinsurance can add significant complexities to the evaluation of the Workers' Compensation Program's solvency and financial position. It can significantly reduce the net insurance risk faced, but also introduce a significant amount of credit risk.

The Workers' Compensation Program purchased Workers' Compensation Excess of Loss Reinsurance to include coverage for catastrophic events and acts of terrorism in excess of $200 million. Reserves for compensation and compensation adjustment expenses will be reported gross of reinsured amounts if a qualifying event occurs. Management is not aware of any catastrophes during the coverage period and no recoveries have been recorded. Reinsurance premiums are reflected as a reduction of premium income.

The reinsurance agreement consists of two excess of loss contracts. The first excess of loss contract covers catastrophic events or acts of terrorism that exceed $200 million up to $500 million per occurrence. The second excess of loss contract covers events that exceed $500 million up to $1 billion per occurrence. All reinsurers have an AM Best rating of "A" or higher at the time of placement.

The Workers' Compensation Program reinsurance agreement clearly transfers risk and does not contain any clauses that would bring into question whether the agreement transfers risk. The reinsurers will indemnify the Workers' Compensation Program against the aggregate loss and loss adjustment expenses arising from catastrophic and terrorism events.

The Workers' Compensation Program pays a flat premium amount for the ceded reinsurance. The total annual ceded premium of $13,425,000 for the coverage period February 2019 through January 2020. Premiums ceded of $5,175,152 for reinsurance coverage have been recorded in the accompanying basic financial statements for the year ended June 30, 2019, for the coverage period from February to June 2019.

The following amounts have been deducted from premiums in the presented financial statements as a result of reinsurance ceded for fiscal years 2019 and 2018:

		2019		2018	
Premiums and assessments, net of refunds (in millions)	$	2,618	$	2,725	
Ceded premiums (in millions)		(5.2)		-	*
Total premium and assessment income, net of refunds and ceded premiums (in millions)	$	2,613	$	2,725	

*No reinsurance was purchased for the fiscal year ended June 30, 2018.

Note 3 - Deposits and Investments

3.A. Deposits

Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the Workers' Compensation Program would not be able to recover its deposits. See Note 1.D.1 for more information on cash and cash equivalents.

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington, unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 RCW, makes and enforces regulations and administers a collateral pool program to ensure that public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

The Office of the State Treasurer (OST) manages the deposits for the Workers' Compensation Program. At June 30, 2019, $58.7 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $155,134 uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Program's investments is vested in the voting members of the Washington State Investment Board (WSIB). The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with RCW 43.33A.110, the Workers' Compensation Program's portfolios are to be managed to limit fluctuations in workers' compensation premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the objectives are to:

- Maintain the solvency of the accounts.
- Maintain premium rate stability.
- Ensure that sufficient assets are available to fund the expected liability payments.
- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

Eligible Investments - Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities
- International equities
- U.S. Treasuries and government agencies
- Credit bonds
- Mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment grade non-U.S. dollar bonds
- Real estate

Investment Policies and Restrictions

To meet stated objectives, investments of the Workers' Compensation Program are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 and RCW 43.33A.140.

- No corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time.

- Asset allocations are to be reviewed every four years or sooner if there are significant changes in funding levels or the liability durations. Asset allocations per L&I's June 2017 asset investment policy are:

Asset Allocation Target and Ranges

Account	Fixed Income	Equity	Real Estate
Accident Account	80% ±6	15% ±4	5% ±2
Pension Reserve Account	85% ±5	10% ±3	5% ±2
Medical Aid Account	75% ±7	20% ±5	5% ±2
Supplemental Pension Account	100%	0%	0%

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

The WSIB has elected a gradual implementation plan to reach the strategic asset allocation. During this implementation period, if real estate is above or below its target due to timing or illiquidity, fixed income will be used to offset the balance.

Equity - The benchmark and structure for global equities will be the broad Morgan Stanley Capital International (MSCI) All Country World Investable Market Index net with USA gross. The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers may use futures for hedging or establishing a long position.

Fixed Income - Sector allocation of fixed income investments are to be managed within prescribed ranges. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practicable. Target allocations for the fixed income sectors include:

U.S. Treasuries and government agencies	5 to 25 percent

Credit bonds	20 to 80 percent
Asset-backed securities	0 to 10 percent
Commercial mortgage-backed securities	0 to 10 percent
Mortgage-backed securities	0 to 25 percent

Total fair value of below-investment-grade credit bonds (as defined by Bloomberg Barclays Family of Fixed Income Indices) shall not exceed five percent of the total fair value of the funds. Although below-investment-grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

Total fair value of below-investment-grade mortgage-backed, asset-backed, and commercial mortgage-backed securities should not exceed five percent of total fair value of the funds.

Real Estate - The objectives and characteristics of the real estate portfolio are as follows:

- Generate a six percent annual investment return over a rolling 10-year period.
- The return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.
- The benchmark for the portfolio is a total net return of six percent measured over a rolling 10-year period.
- No more than 15 percent of the real estate portfolio will be invested in a single property after the program's build-out period.

3.B.2. Valuation of Investments

Fair Value - GASB Statement No. 72 *Fair Value Measurement and Application* (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest

rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable

Inputs that are used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Workers' Compensation Program defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Workers' Compensation Program performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Workers' Compensation Program receives fair value prices for publicly traded debt securities directly from its custodian bank. These prices are obtained from reputable pricing sources, which include, but are not limited to, Bloomberg and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

- Price changes from the previous day of two to five percent or greater are researched, with corroborating evidence required from the primary pricing vendor.

- Prices unchanged for more than 10 days are sent to the appropriate vendor for review and verification.

The Workers' Compensation Program invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds, which issues or reduces shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The Workers' Compensation Program reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Revenues, Expenses, and Changes in Net Position.

The table below presents fair value measurements as of June 30, 2019:

Schedule of Fair Value Measurement
June 30, 2019
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,165,548		$ 1,165,548	
Corporate bonds	10,082,114		10,082,114	
U.S. and foreign government and agency securities	4,256,630		4,256,630	
Total investments by fair value level	$ 15,504,292		$ 15,504,292	
Investments measured at net asset value (NAV)				
Commingled equity investment trusts	2,809,079			
Total investments measured at the NAV	2,809,079			
Total investments measured at fair value*	$ 18,313,371			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	$ 58,469		$ 58,469	
Obligations under securities lending agreements	(58,469)		(58,469)	
Total other assets (liabilities) measured at fair value	$ -		$ -	

*This total does not tie to Investments, current and noncurrent, on the Statement of Net Position. This schedule includes only WSIB investments.

Investments Classified as Level 2 - Investments classified as Level 2 in the above table are comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market-corroborated inputs.

Investments Measured at Net Asset Value (NAV) - The Workers' Compensation Program invests in a single collective investment trust fund (fund). The fund is passively managed to track the investment of a broad, global equity index, the MSCI All Country World Investable Market Index net with USA gross. The fund determines a fair value by obtaining the values of underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings are publicly traded equity securities.

The fund has daily openings, and contributions and withdrawals can be made on any business day. The fund manager, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

3.B.3. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2019, the Workers' Compensation Program had $58,468,568 of cash collateral received in the Medical Aid and Pension Reserve Accounts invested through the WSIB.

Securities Lending – WSIB

State law and WSIB policy permit the Workers' Compensation Program to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the Workers' Compensation Program in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Program, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2019, was approximately $318.8 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2019, cash collateral received totaling $58.5 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $58.5 million is reported as securities lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell, unless the borrower defaults, are not reported as assets or liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2019, was $267.5 million.

During fiscal year 2019, fixed income securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government or U.S. agency securities, including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2019, the Workers' Compensation Program held the following securities from reinvestment of cash collateral and securities received as collateral:

Collateral Held Under Securities Lending
June 30, 2019
(in thousands)

	Cash Collateral	Non-Cash Collateral	Total
US treasuries and agencies	$ -	$ 167,972	$ 167,972
Mortgage-backed	-	99,486	99,486
Repurchase agreements	19,503	-	19,503
Yankee CDs	13,605	-	13,605
Commercial Paper	14,925	-	14,925
Cash equivalents and other	10,436	-	10,436
Total Collateral Held	$ 58,469	$ 267,458	$ 325,927

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2019, the cash collateral held had an average duration of 17.8 days and an average weighted final maturity of 98.3 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral cannot be pledged or sold absent borrower default. No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European-domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Program by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2019, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during fiscal year 2019 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Northern Trust Company as a lending agent and receives a share of income earned from this activity. The lending agent lends U.S. government and supranational securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements, deposit accounts, or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. During fiscal year 2019, there was no cash collateral from securities lending.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the OST for income distributed by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2019, the fair value of securities on loan for the Workers' Compensation Program totaled $748,315.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2019, the OST had no credit risk exposure to borrowers, because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3.B.4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program's portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2019, the Workers' Compensation Program's portfolio durations were within the prescribed duration targets.

The schedules below provide information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2019. The schedules display various asset classes held by years until maturity and effective duration, and credit ratings. All debt securities are reported using average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Schedule of Maturities and Effective Duration
June 30, 2019
(in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration (years)**
Mortgage and other asset-backed securities	$ 1,165,548	$ 39,915	$ 816,192	$ 309,441	$ -	4.1
Corporate bonds	10,082,114	1,398,333	4,108,920	1,944,077	2,630,784	6.4
U.S. government and agency securities	3,120,322	164,925	502,791	1,272,811	1,179,795	11.1
Foreign government and agencies	1,136,308	213,650	678,056	210,861	33,741	3.4
Total investments categorized	$ 15,504,292	$ 1,816,823	$ 6,105,959	$ 3,737,190	$ 3,844,320	
Investments Not Required to be Categorized						
Commingled investment trusts	2,809,079					
Cash and cash equivalents	201,371					
Total investments not categorized	3,010,450					
Total*	$ 18,514,742					

*This total does not tie to Investments, current and noncurrent, on the Statement of Net Position. This schedule includes only WSIB investments.

**Excludes cash and cash equivalents

Investments with multiple credit ratings at June 30, 2019, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2019
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,165,548	$ 600,828	$ 272,760	$ 2,039,136
Aa1	-	167,703	137,800	305,503
Aa2	-	238,593	245,966	484,559
Aa3	-	1,038,812	229,767	1,268,579
A1	-	1,491,084	186,782	1,677,866
A2	-	1,943,259	-	1,943,259
A3	-	1,530,048	-	1,530,048
Baa1	-	1,447,911	24,234	1,472,145
Baa2	-	1,132,057	38,999	1,171,056
Baa3		330,808	-	330,808
Ba1 or lower	-	161,011	-	161,011
Total Fair Value	$ 1,165,548	$ 10,082,114	$ 1,136,308	$ 12,383,970

3.B.5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The debt investments of the Workers' Compensation Program as of June 30, 2019, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2019.

Custodial Credit Risk (Investments) - Custodial credit risk is the risk that, in the event that a depository institution or counterparty fails, the Workers' Compensation Program would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Program does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Program.

3.B.6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only securities held by the Workers' Compensation Program with foreign currency exposure at June 30, 2019, consisted of $1,197 million (includes U.S. dollar-denominated securities) invested in an international commingled equity index fund.

The following schedule presents the exposure of the Workers' Compensation Program to foreign currency risk, stated in U.S. dollars:

Workers' Compensation Program Foreign Currency Exposure by Country June 30, 2019 (in thousands)		
Foreign Currency Denomination		**Equity Securities**
Australia - Dollar	$	61,147
Brazil - Real		24,692
Canada - Dollar		86,126
Denmark - Krone		15,197
E.M.U. - Euro		260,294
Hong Kong - Dollar		96,877
Japan - Yen		208,942
New Taiwan - Dollar		38,349
Singapore - Dollar		12,248
South Africa - Rand		19,102
South Korea - Won		41,028
Sweden - Krona		25,981
Switzerland - Franc		73,301
United Kingdom - Pound		144,281
Miscellaneous Foreign Currencies		89,246
Total	$	1,196,811

3.B.7. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Program is authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options.

Derivative transactions involve, to varying degrees, market and credit risks. The Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2019, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $560.4 million.

Note 4 - Receivables

Receivables at June 30, 2019, consisted of the following:

Receivables June 30, 2019		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	151,135,809
Estimated premiums receivable[1]		663,044,000
Estimated self-insurance premiums receivable[2]		75,644,382
Total Premiums Receivable		889,824,191
Other receivables		
Receivable from overpayments		22,253,575
Investment interest receivable		118,785,744
Miscellaneous receivables		4,483,430
Total Current Receivables, Gross		1,035,346,940
Less: Allowance for uncollectible receivables		168,346,807
Total Current Receivables, Net of Allowance	$	867,000,133

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2019. Premium amounts were estimated by L&I actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2019, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2019, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2019		
General Fund	$	276
L&I accounts*		588,360
Other state agencies		11,562
Total Receivables From Other State Accounts and Agencies	$	600,198

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be received within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2019.

Payables to other state accounts and agencies as of June 30, 2019, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2019		
General Fund	$	82,585
L&I accounts*		2,148,316
Other state agencies		7,098,092
Total Payables To Other State Accounts and Agencies	$	9,328,993

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services received prior to June 30, 2019, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

Capital Assets Activity
For the Fiscal Year Ended June 30, 2019

	Beginning Balance July 1, 2018	Increases	Decreases	Ending Balance June 30, 2019
Capital Assets Not Being Depreciated				
Land and collections	$ 3,204,302	$ -	$ -	$ 3,204,302
Construction in progress	8,123,385	-	-	8,123,385
Total Capital Assets Not Being Depreciated	11,327,687	-	-	11,327,687
Capital Assets Being Depreciated				
Buildings and building components	65,133,602	-	(23,084)	65,110,518
Accumulated depreciation	(34,408,970)	(1,353,156)	10,196	(35,751,930)
Net Buildings and Building Components	30,724,632	(1,353,156)	(12,888)	29,358,588
Furnishings, equipment, and collections	60,329,643	786,873	(412,307)	60,704,209
Accumulated depreciation	(58,879,098)	(540,903)	409,924	(59,010,077)
Net Furnishings, Equipment, and Collections	1,450,545	245,970	(2,383)	1,694,132
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(788,807)	(20,408)	-	(809,215)
Net Other Improvements	500,455	(20,408)	-	480,047
Total Capital Assets Being Depreciated, Net	32,675,632	(1,127,594)	(15,271)	31,532,767
Intangible assets - definite useful lives	47,208,595	-	-	47,208,595
Accumulated amortization	(33,136,062)	(5,492,890)	-	(38,628,952)
Total Capital Assets Being Amortized, Net	14,072,533	(5,492,890)	-	8,579,643
Total Capital Assets, Net of Depreciation and Amortization	$ 58,075,852	$ (6,620,484)	$ (15,271)	$ 51,440,097

For fiscal year 2019, the total depreciation expense was $7,407,355.

Note 7 - Noncurrent Liabilities

7.A. Claims Payable

The following schedule presents the changes in claims liabilities (unpaid claims and claim adjustment expense liabilities) for the past two fiscal years for the Workers' Compensation Program:

Changes in Claims Liabilities
For the Fiscal Years ended June 30, 2019 and 2018

Claims Payable	June 30, 2019	June 30, 2018
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 27,774,303,000	$ 26,640,538,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,105,190,000	2,111,642,000
Increase in provision for insured events of prior fiscal years	1,658,960,000	1,333,719,000
Total Incurred Claims and Claim Adjustment Expenses	3,764,150,000	3,445,361,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	321,422,000	325,933,000
Insured events of prior fiscal years	2,050,212,000	1,985,663,000
Total payments	2,371,634,000	2,311,596,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 29,166,819,000	$ 27,774,303,000
Current portion	$ 2,155,389,000	$ 2,226,223,000
Noncurrent portion	$ 27,011,430,000	$ 25,548,080,000

At June 30, 2019, $40,213 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $29,167 million. These claims are discounted on an actuarially derived projected payment pattern and selected annual interest rate (See Note 1.D.4).

The claims and claim adjustment liabilities of $29,167 million as of June 30, 2019, include $15,217 million for supplemental pension COLAs that are funded on a current payment basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claims liabilities of $13,950 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.B. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2019, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2019

Current and Noncurrent Liabilities	Beginning Balance June 30, 2018	Additions	Reductions	Ending Balance June 30, 2019	Due Within One Year[2]	Noncurrent Balance June 30, 2019
Claims payable, current & noncurrent	$ 27,774,303,000	$ 3,764,150,000	$ (2,371,634,000)	$ 29,166,819,000	$ 2,155,389,000	$ 27,011,430,000
Other current and noncurrent liabilities						
Compensated absences[1]	15,923,961	19,058,259	(17,909,343)	17,072,877	9,834,488	7,238,389
DOE trust liabilities	5,300,034	-	(413,196)	4,886,838	575,450	4,311,388
Other postemployment benefits	129,270,769	15,562,712	(28,738,540)	116,094,941	2,131,632	113,963,309
Net pension liability	118,205,643	31,157,621	(60,712,837)	88,650,427	33,523	88,616,904
Total Other Current and Noncurrent Liabilities	268,700,407	65,778,592	(107,773,916)	226,705,083	12,575,093	214,129,990
Total Current and Noncurrent Liabilities	$ 28,043,003,407	$ 3,829,928,592	$ (2,479,407,916)	$ 29,393,524,083	$ 2,167,964,093	$ 27,225,559,990

[1]Compensated absences due within one year are included in accrued liabilities on the Statement of Net Position.
[2]There are other current liabilities that are not included in the table above.

7.C. Operating Leases

The Workers' Compensation Program leases land, office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature in order to continue the obligation. Since the possibility of not receiving funding from the Legislature is remote, leases are considered non-cancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. Management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2019:

Future Minimum Payments for Operating Leases
June 30, 2019

Fiscal Year Ended June 30,	
2020	$ 8,620,459
2021	7,204,315
2022	5,578,183
2023	2,513,685
2024	1,031,615
Total Future Minimum Lease Payments	$ 24,948,257

The total operating lease rental expense for fiscal year 2019 was $13,534,694.

Note 8 - Deficit

At June 30, 2019, the Workers' Compensation Program had a deficit of $10,232 million. This is a result of a $14,930 million deficit in the Supplemental Pension Account at June 30, 2019, offset by a combined $4,697 million net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2019, noncurrent claims payable in the Supplemental Pension Account totaled $14,579 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2019:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2018	$	(13,765,069,027)
Fiscal year 2019 activity		(1,164,709,800)
Balance, June 30, 2019	$	(14,929,778,827)

Note 9 - Retirement Plans and Net Pension Liability

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), administered by the Department of Retirement Systems (DRS), and a Higher Education Defined Contribution Retirement Plan, which is privately administered.

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2019, for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans and the Higher Education Retirement Plan Supplemental Defined Benefit Plans. Additional detail is provided later in this note.

Workers' Compensation Program Proportionate Share
June 30, 2019

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 58,964,003	$ 9,552,990	$ (2,343,196)	$ (3,419,810)
PERS 2/3	27,874,638	17,139,167	(29,883,838)	(13,713,524)
TRS 1	64,554	10,999	(2,761)	3,477
TRS 2/3	10,164	11,786	(13,431)	(8,968)
Higher Ed	1,737,068	1,069,958	(781,071)	162,131
Total	$ 88,650,427	$ 27,784,900	$ (33,024,297)	$ (16,976,694)

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

9.A. Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to Plan 3.

Benefits Provided

PERS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3.

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute, in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2019 for each of Plans 1, 2, and 3 was 12.83 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees at June 30, 2019, was 7.41 percent of the employee's annual covered salary. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocations to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2018, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation. There were no material changes in assumptions, benefit terms, or methods for the reporting period.

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

The following table presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.40 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)				
		PERS 1		PERS 2/3
1% Decrease	$	72,463,086	$	127,499,227
Current Discount Rate	$	58,964,003	$	27,874,638
1% Increase	$	47,271,064	$	(53,806,416)

Net Pension Liability

At June 30, 2018, the Workers' Compensation Program reported a liability of $58,964,003 for its proportionate share of the collective net pension liability for PERS 1 and $27,874,638 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.15 percent, an increase of 0.05 percent since the prior reporting period, and 3.24 percent for PERS 2/3, an increase of 0.06 percent. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2019, the Workers' Compensation Program recognized a pension expense of $3,419,810 for PERS 1, and a pension expense of ($13,713,524) for PERS 2/3.

At June 30, 2019, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2019	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 3,416,700	$ 3,416,700
Changes of assumptions	-	326,086	326,086
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(17,028)	(17,028)
Contributions subsequent to measurement date	9,552,990	13,413,409	22,966,399
Total	$ 9,552,990	$ 17,139,167	$ 26,692,157

At June 30, 2019, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2019	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 4,880,337	$ 4,880,337
Changes of assumptions	-	7,932,896	7,932,896
Net difference between projected and actual earnings on pension plan investments	2,343,196	17,105,168	19,448,364
Change in proportionate share of contributions	-	(34,563)	(34,563)
Contributions subsequent to measurement date	-	-	-
Total	$ 2,343,196	$ 29,883,838	$ 32,227,034

Pension contributions made subsequent to the measurement date in the amount of $9,552,990 and $13,413,410 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2019, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ended June 30,		**PERS 1**		**PERS 2/3**
2020	$	102,515	$	(2,680,141)
2021	$	(512,236)	$	(5,692,176)
2022	$	(1,537,077)	$	(10,472,816)
2023	$	(396,398)	$	(3,879,973)
2024	$	-	$	(1,437,926)
Thereafter	$	-	$	(1,995,048)

9.B. Teachers' Retirement System

Plan Description

The Legislature established the TRS in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees. The University of Washington employees paid from Workers' Compensation Program funds are members of TRS Plan 3. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a defined benefit plan with a defined contribution component. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, and by June 30, 2007, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided

TRS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3.

TRS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established under state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute, in accordance with chapters 41.32 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2019 for each of Plans 1, 2, and 3 was 15.41 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies and higher education employees. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency and higher education employees at June 30, 2019, was 7.06 percent of the covered payroll. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocations to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2018, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.40 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 80,686	$ 63,354
Current Discount Rate	$ 64,554	$ 10,164
1% Increase	$ 50,589	$ (33,044)

Net Pension Liability

At June 30, 2018, the Workers' Compensation Program reported a liability of $64,554 for its proportionate share of the collective net pension liability for TRS 1 and $10,164 for TRS 2/3. Workers' Compensation Program proportion for TRS 1 was 0.20 percent, an increase of 0.01 percent since the prior reporting period, and 0.21 percent for TRS 2/3, which did not change from the prior year. The proportions are based on the Workers' Compensation Program contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2019, an increase to pension expense of $3,477 was recognized for TRS 1, and a decrease to pension expense of $8,968 was recognized for TRS 2/3.

At June 30, 2019, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2019

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 4,776	$ 4,776
Changes of assumptions	-	173	173
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(5,027)	(5,027)
Contributions subsequent to measurement date	10,999	11,864	22,863
Total	$ 10,999	$ 11,786	$ 22,785

At June 30, 2019, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2019

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 750	$ 750
Changes of assumptions	-	4,085	4,085
Net difference between projected and actual earnings on pension plan investments	2,761	8,596	11,357
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 2,761	$ 13,431	$ 16,192

Pension contributions made subsequent to the measurement date in the amount of $10,999 and $11,864 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2019, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ended June 30,		**TRS 1**		**TRS 2/3**
2020	$	276	$	(3,423)
2021	$	(572)	$	(5,020)
2022	$	(1,963)	$	(4,885)
2023	$	(502)	$	(970)
2024	$	-	$	240
Thereafter	$	-	$	549

9.C. Higher Education Retirement Plan Supplemental Defined Benefit Plans

Plan Description

The Higher Education Retirement Plans are privately administered single-employer defined contribution plans with a supplemental defined benefit plan component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. No assets are accumulated in trusts or equivalent arrangements. The University of Washington employees paid from Workers' Compensation Program funds are members of Higher Education Retirement Plans. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program.

The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participated in a separate plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

RCW 28B.10.400, et. seq. assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the Student Achievement Council.

Benefits Provided

The Higher Education Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members. As of July 1, 2011, all Higher Educational Retirement Plans were closed to new entrants. Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is one-twelfth of two percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of 50 percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution retirement plan benefit in the first month of retirement had they invested all employer and member contributions equally between fixed income and variable income annuity investments. Plan members have the option to retire early with reduced benefits.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6. 50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

Most actuarial assumptions used in the June 30, 2018, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 percent.

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Index, or 3.50 percent for the June 30, 2019, measurement date.

Plan Membership

Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2018, the date of the latest actuarial valuation for all plans. The Workers' Compensation Program comprises less than one percent of the membership.

Proportionate Share of Participating Members			
Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
2	1	18	21

Net Pension Liability

The following table presents the changes in total pension liability/(asset) of Higher Educational Supplemental Retirement Plans for the fiscal year ended June 30, 2019:

Changes in Total Pension Liability/(Asset) For the Fiscal Year Ended June 30, 2019		
Service cost	$	53,040
Interest		73,022
Changes of benefit terms		-
Differences between expected and actual experience		460,792
Changes in assumptions		261,223
Benefit payments		(33,566)
Other		-
Net Change in Total Pension Liability		814,511
Total Pension Liability - Beginning		922,557
Total Pension Liability - Ending	$	1,737,068

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2019, the Higher Education Supplemental Retirement Plans reported a pension expense of $162,131.

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.50 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	2,004,532
Current Discount Rate	$	1,737,068
1% Increase	$	1,515,691

At June 30, 2019, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 682,850	$ 548,423
Changes of assumptions	387,108	232,648
Transactions subsequent to measurement date	-	-
Total	$ 1,069,958	$ 781,071

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ended June 30,		
2020	$	5,475
2021	$	5,475
2022	$	5,475
2023	$	5,475
2024	$	5,475
Thereafter	$	261,512

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, a single employer defined benefit plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumption used in valuations presented in this footnote assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire, under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, Higher Education Retirement Plan, Judicial Retirement System, and the Law Enforcement Officers' and Fire Fighters' Retirement System.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at $347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be $368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2017, the explicit subsidy was $150 per member per month, and it remained $150 per member per month in calendar year 2018. This was increased in calendar year 2019 to $168 per member per month. It is projected to increase to $183 per member per month in calendar year 2020.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis. L&I contributed $32,337,522 during fiscal year 2018.

The plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state, nor is a separate financial report publicly available. For information on the results of the most recent actuarial valuation for the OPEB plan, refer to the Office of the State Actuary's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Actuarial Assumptions

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2018
Actuarial Cost Method	Entry Age
Amortization Method	9 years
Asset Valuation Method	N/A – No Assets

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation, the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50%
Healthcare trend rates	8.00%
Post-retirement participation	65.00%
Percentage with spouse coverage	45.00%

In projecting the growth of the explicit subsidy after 2020, when the cap is $183, it is assumed to grow at the healthcare trend rates. The Legislature determines the value of the cap, and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Healthcare Cost Trend Rates		
1% Decrease	$	95,302,696
Current Healthcare Cost Trend Rate	$	116,094,941
1% Increase	$	143,744,682

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond

Index, or 3.58 percent, for the June 30, 2017, measurement date, and 3.87 percent for the June 30, 2018, measurement date.

The increase in the total OPEB liability due to differences between expected and actual experience is largely due to an updated participant file, which reflects current plan enrollment. Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate and updated healthcare economic assumptions, which include health care trends and costs. Both of these changes led to a decrease in the total OPEB liability. The primary reason for lower health care trends was due to a drop on the long-term general inflation assumption from 3.00 percent to 2.75 percent. Other impacts to the total OPEB liability include reflecting dental benefits, which had previously been excluded from the measurement. This increased the total OPEB liability by approximately three percent.

The following represents the Workers' Compensation Program's proportionate share of the total OPEB liability, calculated using the discount rate of 3.87 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87 percent) or one percentage point higher (4.87 percent) than the current rate.

Sensitivity of the Discount Rate OPEB Liability		
1% Decrease	$	139,983,204
Current Discount Rate	$	116,094,941
1% Increase	$	97,456,924

Total OPEB Liability

As of June 30, 2019, the Workers' Compensation Program reported a total OPEB liability of $116,094,941. This liability was determined based on a measurement date of June 30, 2018.

The following table shows changes in the Workers' Compensation Program's total OPEB liability as of the June 30, 2019, reporting date.

Changes in Total OPEB Liability For the Fiscal Year Ended June 30, 2019		
Total OPEB Liability - Beginning	$	129,270,770
Changes for the year		
Service cost		7,258,435
Interest cost		4,990,134
Changes of assumptions*		(23,316,815)
Benefit payments		(2,107,583)
Net Changes in Total OPEB Liability		(13,175,829)
Total OPEB Liability - Ending	$	116,094,941

*The recognition period for these changes is nine years. This is equal to the average remaining service lives of all active and inactive members.

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

The Workers' Compensation Program will recognize OPEB expense of $4.8 million.

For fiscal year 2019, L&I reported its proportionate share of the state-reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows and Inflows of Resources June 30, 2019	Outflows	Inflows
Difference between expected and actual experience	$ 4,048,909	$ -
Changes of assumptions	-	44,290,511
Changes in proportionate share of contributions	3,996,541	3,737,664
Transactions subsequent to the measurement date	2,131,632	-
Total	$ 10,177,082	$ 48,028,175

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the fiscal year ended June 30, 2020.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense in the fiscal years ended June 30 as follows:

Future OPEB Expense Fiscal Year ended June 30,	
2020	$ (5,349,262)
2021	$ (5,349,262)
2022	$ (5,349,262)
2023	$ (5,349,262)
2024	$ (5,349,262)
Thereafter	$ (13,236,412)

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127, or online at http://www.ofm.wa.gov/cafr.

Note 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2019 was $10.27 million.

11.B. Contingencies

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in the course of operations. At any given point, there may be numerous lawsuits that could financially impact the program. Although the outcome of these lawsuits is not currently determinable, the resolution of these matters is not likely to have a material impact on the Workers' Compensation Program's financial position, revenues, or expenses.

11.C. Financial Guarantees

Effective July 1, 1992, the Washington State Legislature requires the Workers' Compensation Program, under RCW 48.22.070, to participate in an assigned risk pool, the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan (WARP), providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act (USL&H). The Workers' Compensation Program is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely due to amending legislation passed in 1997.

The WARP was authorized to provide USL&H coverage to those unable to purchase it through the normal market. The rules governing the plan are contained in chapter 284-22 of the Washington Administrative Code. It is administered by a governing committee appointed by the Insurance Commissioner and made up of the Director of L&I and three members representing each of the following stakeholder groups: labor, maritime employers, and insurers and insurance producers. The plan has been operating profitably, and the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment. It is unlikely that the Workers' Compensation Program will be required to make any payments in the near future; therefore, there are no guarantees extended that are outstanding at the reporting date. No payment recovery arrangements were authorized from other parties under the law.

Note 12 - Subsequent Events

12.A. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 18, 2019, the Director announced a proposed 0.8 percent decrease in the average premium rate for 2020. This rate decrease will reduce the overall hourly rate from $0.645 to $0.640, or $0.005 per hour, which equates to an average cost reduction of $15 a year per employee. Decreases in work-related injuries, along with agency initiatives to improve outcomes for injured workers and reduce costs, have made the system healthier and are contributing to the proposed decrease.

The final rates will be adopted in December 2019 and go into effect on January 1, 2020.

12.B. Industrial Insurance Rainy Day Fund Account

RCW 51.44.023 was enacted during the 2011 Legislative session, creating an Industrial Insurance Rainy Day Fund Account to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent of total liabilities for the Industrial Insurance Fund. Money from the Industrial Insurance Rainy Day Fund Account should be applied to reduce a rate increase or aid businesses during or recovering from economic recessions. Based on the June 30, 2019, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 27.46 percent of total liabilities. As a part of the 2020 rate-making process, the Director will determine the timing and amount of a transfer.

Note: Statutory Financial Information is based on Statutory Accounting Principles (SAP) as promulgated by the National Association of Insurance Commissioners (NAIC).

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2019 and 2018
(in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the Workers' Compensation Basic and Supplemental Pension Plans:

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 13,750,303	$ 13,334,538	$ 14,024,000	$ 13,306,000	$ 27,774,303	$ 26,640,538
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,789,780	1,796,823	315,410	314,819	2,105,190	2,111,642
Increase (decrease) in provision for insured events of prior fiscal years	221,171	413,359	1,437,789	920,360	1,658,960	1,333,719
Total incurred claims and claim adjustment expenses	2,010,951	2,210,182	1,753,199	1,235,179	3,764,150	3,445,361
Less: Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	321,422	325,933	-	-	321,422	325,933
Insured events of prior fiscal years	1,490,013	1,468,484	560,199	517,179	2,050,212	1,985,663
Total payments	1,811,435	1,794,417	560,199	517,179	2,371,634	2,311,596
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 13,949,819	$ 13,750,303	$ 15,217,000	$ 14,024,000	$ 29,166,819	$ 27,774,303
Current portion	$ 1,516,903	$ 1,637,215	$ 638,486	$ 589,008	$ 2,155,389	$ 2,226,223
Noncurrent portion	$ 12,432,916	$ 12,113,088	$ 14,578,514	$ 13,434,992	$ 27,011,430	$ 25,548,080

Source: Washington State Department of Labor & Industries Actuarial Services

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30

	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.15%	3.10%	3.22%	3.26%	3.24%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 58,964,003	$ 61,659,391	$ 72,577,582	$ 70,982,707	$ 69,146,130
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 1	$ 2,183,895	$ 2,645,571	$ 3,324,167	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 2/3	169,694,838	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's employers' covered payroll*	$ 171,878,733	$ 159,381,602	$157,200,870	$149,664,275	$ 143,786,141
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered payroll*	2699.95%	2330.66%	2183.33%	1804.35%	1483.82%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30

	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.24%	3.18%	3.31%	3.34%	3.30%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$27,874,638	$55,546,159	$82,761,762	$58,566,959	$ 32,912,727
Workers' Compensation Program's employers' covered payroll*	$ 169,694,838	$ 156,736,031	$153,786,703	$145,729,911	$ 139,125,855
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered payroll*	16.43%	35.44%	53.78%	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30

	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.200%	0.190%	0.210%	0.380%	0.800%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 64,554	$ 59,122	$ 70,402	$ 104,621	$ 183,886
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$ 3,786	$ 4,703	$ 12,044	$ 14,869	$ 36,888
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 2/3	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered payroll*	$ 132,499	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered payroll*	1705.07%	1257.24%	584.57%	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	66.52%	65.58%	62.07%	65.70%	68.77%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30

	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.210%	0.210%	0.250%	0.480%	1.100%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 10,164	$ 18,413	$ 29,456	$ 29,388	$ 21,139
Workers' Compensation Program's employers' covered payroll*	$ 128,713	$ 110,321	$ 104,508	$ 161,784	$ 282,403
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered payroll*	7.90%	16.69%	28.19%	17.90%	7.45%
Plan fiduciary net position as a percentage of the total pension liability	96.88%	93.14%	88.72%	92.48%	96.81%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Years Ended June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 9,441,964	$ 8,836,133	$ 7,552,340	$ 7,431,555	$ 6,064,083	$ 5,942,879
Workers' Compensation Program's employer contributions related to covered payroll of employees participating in PERS Plan 1	223,396	276,209	295,632	366,587	360,952	420,032
Workers' Compensation Program's employer UAAL contributions related to covered payroll of employees participating in PERS Plan 2/3	9,218,568	8,559,924	7,256,708	7,064,968	5,703,131	5,522,847
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	9,441,964	8,836,133	7,552,340	7,431,555	6,064,083	5,942,879
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 1	$1,725,539	$2,149,230	$2,645,571	$3,324,167	$3,934,364	$4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 2/3	177,202,631	166,552,341	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's covered payroll	$178,928,170	$168,701,571	$159,381,602	$157,200,870	$149,664,275	$143,786,141
Workers' Compensation Program's contributions as a percentage of covered payroll	5.28%	5.24%	4.74%	4.73%	4.05%	4.13%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Years Ended June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contribution	$ 13,363,912	$ 12,603,647	$ 9,749,591	$ 9,501,317	$ 7,327,801	$ 6,911,983
Workers' Compensation Program's contributions in relation to the contractually-required contribution	13,363,912	12,603,647	9,749,591	9,501,317	7,327,801	6,911,983
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll	$177,202,631	$166,552,341	$156,736,031	$153,876,703	$145,729,911	$139,125,855
Workers' Compensation Program's contributions as a percentage of covered payroll	7.54%	7.57%	6.22%	6.17%	5.03%	4.97%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 1
Fiscal Years Ended June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 10,873	$ 9,164	$ 6,855	$ 6,174	$ 7,297	$ 12,295
Workers' Compensation Program's employer contributions related to covered payroll of employees participating in TRS Plan 1	483	543	619	775	1,475	3,605
Workers' Compensation Program's employer UAAL contributions related to covered payroll of employees participating in TRS Plan 2/3	10,390	8,621	6,236	5,399	5,822	8,690
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	10,873	9,164	6,855	6,174	7,297	12,295
Workers' Compensation Program's contribution deficiency (excess)	$ (0.34)	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$3,114	$3,597	$4,703	$12,044	$14,869	$36,888
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 2/3	90,472	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's covered payroll	$ 93,586	$ 132,310	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's contributions as a percentage of covered payroll	11.62%	6.93%	5.96%	5.30%	4.13%	3.85%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Years Ended June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contribution	$11,638	$9,868	$7,439	$7,069	$9,233	$15,989
Workers' Compensation Program's contributions in relation to the contractually required contribution	11,638	9,868	7,439	7,069	9,233	15,989
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll	$90,472	$128,713	$110,321	$104,508	$161,784	$282,403
Workers' Compensation Program's contributions as a percentage of covered payroll	12.86%	7.67%	6.74%	6.76%	5.71%	5.66%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Total Pension Liability and Related Ratios
Higher Education Supplemental Defined Benefit Plans
Fiscal Years Ended and Measurement Date June 30

	2019	2018
Total Pension Liability		
Service cost	$ 53,040	$ 33,074
Interest	73,022	36,072
Changes of benefit terms	-	-
Differences between expected and actual experience	460,792	(292,464)
Changes in assumptions	261,223	(110,437)
Benefit payments	(33,566)	(13,710)
Other	-	-
Net Change in Total Pension Liability	814,511	(347,465)
Total Pension Liability - Beginning	922,557	1,270,022
Total Pension Liability - Ending	$ 1,737,068	$ 922,557
Covered payroll	$2,302,582	$1,699,122
Total Pension Liability/(Asset) as a percentage of covered payroll	75.44%	54.30%

This schedule is to be built prospectively until it contains ten years of data.
Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions (ADC) for PERS and TRS

The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered-year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different, pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates adopted by the Pension Funding Council and unchanged by the Legislature reflect a phase-in of the increase to contribution rates that resulted from a change to the mortality assumption. This is the second of three biennia over which this increase is expected to be phased in.

For cost-sharing plans, OSA calculates the Contractually Required Contributions (CRC) using the same assumptions and methods as the ADC, except the CRC reflect the adopted contribution rates for the time period shown, which may differ from the contribution rates produced for the ADC.

Schedule of the Workers' Compensation Program's Changes in Total OPEB Liability and Related Ratios As of the Measurement Date of June 30

(dollar amounts in thousands)

		2018		2017
Total OPEB Liability				
Service Cost	$	7,258	$	8,764
Interest Cost		4,990		4,105
Difference between expected and actual experience		4,555		-
Changes in benefit terms		-		-
Changes in assumptions		(27,871)		(20,024)
Benefit Payments		(2,108)		(2,092)
Other		-		-
Net Changes in Total OPEB Liability	$	(13,176)	$	(9,247)
Total OPEB Liability - Beginning		129,271	$	138,518
Total OPEB Liability - Ending	$	116,095	$	129,271
Covered payroll	$	179,022	$	168,834
Total OPEB Liability as a Percentage of Covered Payroll		64.8%		76.6%

This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.
Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

The Public Employees Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, healthcare trend rates, salary projections, and participation percentages.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplementary and Other Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2019

Continued

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
Current Assets									
Cash and cash equivalents	$ 4,758,521	$ 2,059,259	$ 1,252,606	$ -	$ 8,070,386	$ 1,974,602	$ 48,192,974	$ 193,976	$ 58,431,938
Investments, current	817,663,020	826,184,817	284,985,079	-	1,928,832,916	89,361,204	-	-	2,018,194,120
DOE trust cash and investments	-	-	405,134	-	405,134	-	-	-	405,134
Collateral held under securities lending agreements	-	42,522,595	15,945,973	-	58,468,568	-	-	-	58,468,568
Receivables, net of allowance	398,262,440	248,811,652	44,064,136	-	691,138,228	161,153,792	14,667,778	40,335	867,000,133
Receivables from workers' compensation accounts	429,331	298,863	653,399,000	2,230,385,875	2,884,513,069	7,344	-	-	2,884,520,413 *
Receivables from other state accounts and agencies	432,044	164,215	-	-	596,259	3,939	-	-	600,198
Receivables from other governments	1,201,802	261,478	-	-	1,463,280	-	-	-	1,463,280
Inventories	81,722	81,722	-	-	163,444	-	-	-	163,444
Prepaid expenses	2,643,878	1,726,279	-	-	4,370,157	-	-	-	4,370,157
Total Current Assets	1,225,472,758	1,122,110,880	1,000,051,928	2,230,385,875	5,578,021,441	252,500,881	62,860,752	234,311	5,893,617,385
Noncurrent Assets									
DOE trust receivable	-	-	4,481,704	-	4,481,704	-	-	-	4,481,704
Investments, net of current portion	6,267,097,266	5,560,776,559	4,628,969,394	-	16,456,843,219	39,756,845	-	-	16,496,600,064
Capital assets, net of accumulated depreciation	24,396,990	27,043,107	-	-	51,440,097	-	-	-	51,440,097
Total Noncurrent Assets	6,291,494,256	5,587,819,666	4,633,451,098	-	16,512,765,020	39,756,845	-	-	16,552,521,865
Deferred Outflows of Resources									
Deferred outflows from pensions	14,053,698	13,731,202	-	-	27,784,900	-	-	-	27,784,900
Deferred outflow of resources on OPEB	4,865,092	5,311,990	-	-	10,177,082	-	-	-	10,177,082
Total Deferred Outflows of Resources	18,918,790	19,043,192	-	-	37,961,982	-	-	-	37,961,982
Total Assets and Deferred Outflows of Resources	$ 7,535,885,804	$ 6,728,973,738	$ 5,633,503,026	$ 2,230,385,875	$ 22,128,748,443	$ 292,257,726	$ 62,860,752	$ 234,311	$ 22,484,101,232

*Receivables from and payables to the workers' compensation accounts are not included in the Statement of Net Position.

Combining Schedule of Net Position
June 30, 2019

Concluded

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									Concluded
Current Liabilities									
Accounts payable	$ 5,499,215	$ 5,344,380	$ 28,294	$ -	$ 10,871,889	$ 14,448	$ (0)	$ -	$ 10,886,337
Accrued liabilities	249,488,420	12,919,909	20,522,205	-	282,930,534	2,005,946	7,198	-	284,943,678
Obligations under securities lending agreements	-	42,522,595	15,945,973	-	58,468,568	-	-	-	58,468,568
Net pension liability, current	16,626	16,897	-	-	33,523	-	-	-	33,523
Other postemployment benefits, current	1,058,367	1,073,265	-	-	2,131,632	-	-	-	2,131,632
Payables to workers' compensation accounts	1,050,019,907	1,810,424,877	-	-	2,860,444,784	13,629	24,062,000	-	2,884,520,413 *
Payable to other state accounts and agencies	5,593,646	3,735,224	-	-	9,328,870	123	-	-	9,328,993
Due to other governments	88	88	-	-	176	-	-	-	176
Unearned revenues	307,770	182,657	-	-	490,427	3,002,407	-	-	3,492,834
DOE trust liabilities, current	-	-	575,450	-	575,450	-	-	-	575,450
Claims payable, current	539,127,000	486,717,000	491,059,000	-	1,516,903,000	638,486,000	-	-	2,155,389,000
Total Current Liabilities	1,851,111,039	2,362,936,892	528,130,922	-	4,742,178,853	643,522,553	24,069,198	-	5,409,770,604
Noncurrent Liabilities									
Claims payable, net of current portion	4,002,745,000	3,616,958,000	4,813,213,000	-	12,432,916,000	14,578,514,000	-	-	27,011,430,000
Other long-term liabilities	3,794,763	3,443,626	-	-	7,238,389	-	-	-	7,238,389
DOE trust liabilities, net of current portion	-	-	4,311,388	-	4,311,388	-	-	-	4,311,388
Other post-employment benefits, net of current portion	57,017,776	56,945,533	-	-	113,963,309	-	-	-	113,963,309
Net pension liability, net of current portion	45,487,742	43,129,162	-	-	88,616,904	-	-	-	88,616,904
Total Noncurrent Liabilities	4,109,045,281	3,720,476,321	4,817,524,388	-	12,647,045,990	14,578,514,000	-	-	27,225,559,990
Total Liabilities	5,960,156,320	6,083,413,213	5,345,655,310	-	17,389,224,843	15,222,036,553	24,069,198	-	32,635,330,594
Deferred Inflows of Resources									
Deferred inflows from pensions	16,729,039	16,295,257	-	-	33,024,297	-	-	-	33,024,297
Deferred Inflow of resources on OPEB	23,258,842	24,769,334	-	-	48,028,175	-	-	-	48,028,175
Total Deferred Inflows of Resources	39,987,881	41,064,591	-	-	81,052,472	-	-	-	81,052,472
Net Position (Deficit):									
Investment in capital assets	24,396,990	27,043,107	-	-	51,440,097	-	-	-	51,440,097
Unrestricted	1,511,344,613	577,452,827	287,847,716	2,230,385,875	4,607,031,031	(14,929,778,827)	38,791,554	234,311	(10,283,721,931)
Total Net Position (Deficit)	1,535,741,603	604,495,934	287,847,716	2,230,385,875	4,658,471,128	(14,929,778,827)	38,791,554	234,311	(10,232,281,834)
Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	$ 7,535,885,804	$ 6,728,973,738	$ 5,633,503,026	$ 2,230,385,875	$ 22,128,748,443	$ 292,257,726	$ 62,860,752	$ 234,311	$ 22,484,101,232

*Receivables from and payables to the workers' compensation accounts are not included in the Statement of Net Position.

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES									
Premiums and assessments, net of refunds and reinsurance	$ 1,117,889,721	$ 839,522,202	$ 21,784,719	$ -	$ 1,979,196,642	$ 578,053,332	$ 55,429,056	$ 73,601	$ 2,612,752,631
Miscellaneous revenue	38,678,093	1,328,933	64,418	-	40,071,444	13,575,075	68	-	53,646,587
Total Operating Revenues	1,156,567,814	840,851,135	21,849,137	-	2,019,268,086	591,628,407	55,429,124	73,601	2,666,399,218
OPERATING EXPENSES									
Salaries and wages	92,781,777	93,896,696	-	-	186,678,473	-	-	-	186,678,473
Employee benefits	29,447,431	29,755,487	-	-	59,202,918	-	-	-	59,202,918
Personal services	5,436,689	7,635,033	-	-	13,071,722	-	-	-	13,071,722
Goods and services	49,256,117	44,552,879	-	-	93,808,996	-	-	-	93,808,996
Travel	2,964,105	1,633,072	-	-	4,597,177	-	-	-	4,597,177
Claims	(108,991,611)	798,809,426	1,144,906,897	-	1,834,724,712	1,751,575,697	1,597,385	299,263	3,588,197,057
Depreciation	2,473,071	4,934,284	-	-	7,407,355	-	-	-	7,407,355
Miscellaneous expenses	22,875,384	12,611,814	211,379	-	35,698,577	9,077,913	62	-	44,776,552
Total Operating Expenses	96,242,963	993,828,691	1,145,118,276	-	2,235,189,930	1,760,653,610	1,597,447	299,263	3,997,740,250
Operating Income (Loss)	1,060,324,851	(152,977,556)	(1,123,269,139)	-	(215,921,844)	(1,169,025,203)	53,831,677	(225,662)	(1,331,341,032)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	543,648,687	452,037,667	446,191,108	-	1,441,877,462	4,315,403	-	-	1,446,192,865
Other revenues	8,574,030	1,800,108	-	-	10,374,138	-	-	-	10,374,138
Total Nonoperating Revenues (Expenses)	552,222,717	453,837,775	446,191,108	-	1,452,251,600	4,315,403	-	-	1,456,567,003
Income (Loss) Before Transfers	1,612,547,568	300,860,219	(677,078,031)	-	1,236,329,756	(1,164,709,800)	53,831,677	(225,662)	125,225,971
Transfers in	66,397,000	-	1,017,237,076	629,631,694	1,713,265,770	-	17,312,103	-	1,730,577,873 *
Transfers out	(987,920,209)	(598,627,687)	(81,700,389)	-	(1,668,248,285)	-	(62,329,588)	-	(1,730,577,873) *
Net Transfers	(921,523,209)	(598,627,687)	935,536,687	629,631,694	45,017,485	-	(45,017,485)	-	-
Changes in Net Position	691,024,359	(297,767,468)	258,458,656	629,631,694	1,281,347,241	(1,164,709,800)	8,814,192	(225,662)	125,225,971
Net Position (Deficit) at July 1	844,717,244	902,263,402	29,389,060	1,600,754,181	3,377,123,887	(13,765,069,027)	29,977,362	459,973	(10,357,507,805)
Net Position (Deficit) at June 30	$ 1,535,741,603	$ 604,495,934	$ 287,847,716	$ 2,230,385,875	$ 4,658,471,128	$ (14,929,778,827)	$ 38,791,554	$ 234,311	$ (10,232,281,834)

*Intrafund transfers between the workers' compensation accounts are not included in the Statement of Revenues, Expenses, and Changes in Net Position

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2019

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 1,123,722,461	$ 851,036,453	$ 19,597,301	$ -	$ 1,994,356,215	$ 553,104,978	$ 54,851,374	$ 33,266	$ 2,602,345,833
Payments to/for beneficiaries	(545,806,298)	(594,412,060)	(493,667,848)	-	(1,633,886,206)	(558,281,948)	(1,594,506)	(299,263)	(2,194,061,923)
Payments to employees	(127,478,405)	(128,832,461)	-	-	(256,310,866)	-	-	-	(256,310,866)
Payments to suppliers	(56,259,797)	(51,594,637)	13,603	-	(107,840,831)	(70,174)	(6,152)	-	(107,917,157)
Other	35,434,197	(3,297,847)	64,419	-	32,200,769	13,574,760	68	-	45,775,597
Net Cash Flows from Operating Activities	429,612,158	72,899,448	(473,992,525)	-	28,519,081	8,327,616	53,250,784	(265,997)	89,831,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers in	66,352,733	58,346	445,739,737	-	512,150,816	(7,344)	17,312,103	-	529,455,575 *
Transfers out	(393,445,768)	(735,659)	(81,700,388)	-	(475,881,815)	(2,784)	(53,570,976)	-	(529,455,575) *
Operating grants received	9,008,209	1,861,669	-	-	10,869,878	-	-	-	10,869,878
License fees collected	94,221	16,648	-	-	110,869	-	-	-	110,869
Net Cash Flows from Noncapital Financing Activities	(317,990,605)	1,201,004	364,039,349	-	47,249,748	(10,128)	(36,258,873)	-	10,980,747
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Interest paid	-	-	-	-	-	-	-	-	-
Principal payments on bonds payable	-	-	-	-	-	-	-	-	-
Acquisitions of capital assets	(449,126)	(334,679)	-	-	(783,805)	-	-	-	(783,805)
Net Cash Flows from Capital and Related Financing Activities	(449,126)	(334,679)	-	-	(783,805)	-	-	-	(783,805)
CASH FLOWS FROM INVESTING ACTIVITIES									
Net sales (purchases) of trust investments	-	-	34,214	-	34,214	-	-	-	34,214
Receipt of interest and dividends	193,122,126	153,162,371	148,229,204	-	494,513,701	2,954,554	-	-	497,468,255
Investment expenses	(2,599,849)	(2,964,357)	(1,841,668)	-	(7,405,874)	(165,965)	-	-	(7,571,839)
Proceeds from sale of investment securities	2,972,242,133	2,584,199,090	1,744,001,971	-	7,300,443,194	643,179,653	-	-	7,943,622,847
Purchases of investment securities	(3,277,342,781)	(2,808,845,609)	(1,780,869,365)	-	(7,867,057,755)	(653,548,077)	-	-	(8,520,605,832)
Net Cash Flows from Investing Activities	(114,578,371)	(74,448,505)	109,554,356	-	(79,472,520)	(7,579,835)	-	-	(87,052,355)
Net Increase (Decrease) in Cash and Cash Equivalents									
Cash & cash equivalents, July 1 (includes trust cash of $370,920)	(3,405,944)	(682,732)	(398,820)	-	(4,487,496)	737,653	16,991,911	(265,997)	12,976,071
Cash & cash equivalents, June 30 (includes trust cash of $405,134)	8,164,464	2,741,991	2,056,560	-	12,963,015	1,236,949	31,201,063	459,973	45,861,000
	$ 4,758,520	$ 2,059,259	$ 1,657,740	$ -	$ 8,475,519	$ 1,974,602	$ 48,192,974	$ 193,976	$ 58,837,071
Cash Flows from Operating Activities									
Operating income (loss)	$ 1,060,324,851	$ (152,977,556)	$ (1,123,269,139)	$ -	$ (215,921,844)	$ (1,169,025,203)	$ 53,831,677	$ (225,662)	$ (1,331,341,032)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities									
Depreciation	2,473,071	4,934,284	-	-	7,407,355	-	-	-	7,407,355
Change in Assets: Decrease (Increase)									
Receivables	32,741,467	14,081,951	(2,089,695)	-	44,733,723	(16,893,971)	(577,620)	(40,335)	27,221,797
Inventories	(7,049)	(7,049)	-	-	(14,098)	-	-	-	(14,098)
Prepaid expenses	(1,424,346)	(361,170)	-	-	(1,785,516)	-	-	-	(1,785,516)
Change in Liabilities: Increase (Decrease)									
Claims and judgments payable	(655,705,000)	204,142,000	651,079,000	-	199,516,000	1,193,000,000	-	-	1,392,516,000
Accrued liabilities	(8,790,836)	3,086,988	287,309	-	(5,416,539)	1,246,790	(3,273)	-	(4,173,022)
Net Cash Flows from Operating Activities	$ 429,612,158	$ 72,899,448	$ (473,992,525)	$ -	$ 28,519,081	$ 8,327,616	$ 53,250,784	$ (265,997)	$ 89,831,484
Non Cash Investing, Capital and Financing Activities									
Increase (decrease) in fair value of investments	$ 373,000,389	$ 301,759,477	$ 291,482,505	$ -	$ 966,242,371	$ 1,481,269	$ -	$ -	$ 967,723,640

*Intrafund transfers between the workers' compensation accounts are not included in the Statement of Cash Flows

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

This section of the state of Washington's Workers' Compensation Program's CAFR presents detailed information as a supplement to the information in the basic financial statements, note disclosures, and required supplementary information to assist readers in assessing the program's overall financial health.

Page

FINANCIAL TRENDS

These schedules contain trend information to help readers understand how the program's financial performance and fiscal health have changed over time.

REVENUE CAPACITY

These schedules contain information to help readers assess the program's most significant revenue sources.

DEBT CAPACITY

These schedules contain information to help readers assess the affordability of the program's current level of outstanding debt and major obligations.

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help readers understand the environment in which the program operates.

OPERATING INFORMATION

These schedules offer operating data to help readers understand how the information in the program's financial report relates to the services it provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the state of Washington's and the Workers' Compensation Program's Comprehensive Annual Financial Reports.

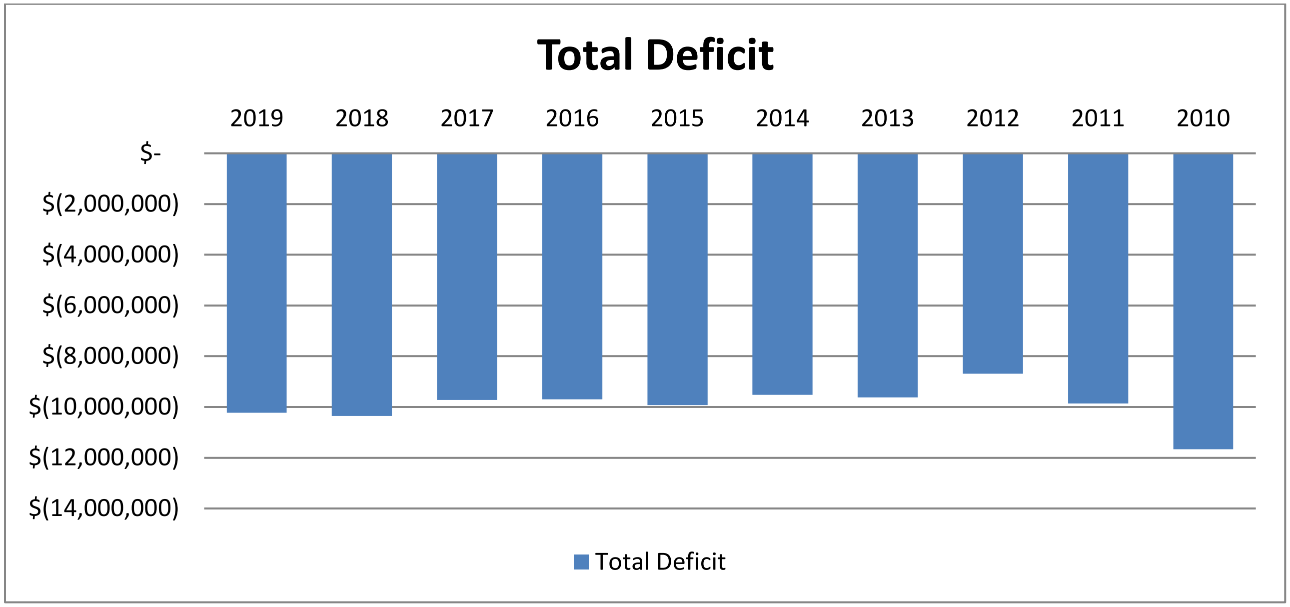
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Schedule 1 - Net Position (Deficit) by Component
Last Ten Fiscal Years
(in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net investment in capital assets	$ 51,440	$ 58,076	$ 65,149	$ 67,452	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251
Unrestricted[1]	(10,283,722)	(10,415,584)	(9,791,167)	(9,764,441)	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)
Total Net Position (Deficit) [1]	$ (10,232,282)	$ (10,357,508)	$ (9,726,018)	$ (9,696,989)	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)

[1] Fiscal years 2012, 2014, 2016, and 2017 are restated amounts.



Schedule 2 - Changes in Net Position
Last Ten Fiscal Years
(in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722
Miscellaneous revenues	53,646	49,833	61,239	57,682	56,714	53,986	47,354	47,964	51,411	40,250
Total Operating Revenues	2,666,399	2,774,729	2,758,974	2,573,938	2,394,197	2,254,396	2,170,837	2,062,805	2,034,759	1,767,972
Operating Expenses										
Salaries and wages	186,678	177,028	160,503	159,686	150,278	145,431	140,203	136,406	135,979	137,085
Employee benefits	59,203	64,793	68,547	62,966	55,397	58,367	54,367	54,379	51,397	48,545
Personal services	13,072	14,968	5,686	7,457	11,304	5,661	8,895	8,013	6,366	4,521
Goods and services	93,809	86,737	82,025	82,424	82,416	76,389	79,315	69,194	72,443	67,817
Travel	4,597	4,576	3,867	4,106	4,145	4,047	4,068	3,779	3,401	3,339
Claims	3,588,197	3,286,636	2,887,424	2,873,993	2,666,452	2,810,658	3,014,796	1,594,192	888,159	3,971,059
Depreciation	7,407	8,499	9,851	10,206	7,184	7,228	8,428	6,634	8,037	7,991
Miscellaneous	44,777	23,841	51,548	37,450	41,041	33,954	28,486	45,946	52,463	26,287
Total Operating Expenses	3,997,740	3,667,078	3,269,451	3,238,288	3,018,217	3,141,735	3,338,558	1,918,543	1,218,245	4,266,644
Operating Income (Loss)	(1,331,341)	(892,349)	(510,477)	(664,350)	(624,020)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)
Nonoperating Revenues (Expenses)										
Earnings on investments	1,446,193	249,354	551,367	857,707	215,557	1,119,761	223,875	1,009,688	981,927	1,441,576
Other revenues	10,374	11,505	9,186	8,909	7,840	8,329	8,998	8,421	9,294	7,878
Interest expense	-	-	-	(37)	(255)	(461)	(656)	(839)	(1,064)	(1,271)
Total Nonoperating Revenues (Expenses)	1,456,567	260,859	560,553	866,579	223,142	1,127,629	232,217	1,017,270	990,157	1,448,183
Income (Loss) Before Transfers	125,226	(631,490)	50,076	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,050,489)
Transfers in [1]						325,015	371,670	303,273	311,777	323,623
Transfers out [1]			(192)			(325,015)	(371,670)	(303,273)	(311,777)	(322,783)
Net Transfers	-	-	(192)	-	-	-	-	-	-	840
Changes in Net Position	125,226	(631,490)	49,884	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)
Net Position (Deficit), July 1 [2]	(10,357,508)	(9,726,018)	(9,696,989)	(9,919,801)	(9,518,923)	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)
Net Position (Deficit), June 30	$ (10,232,282)	$ (10,357,508)	$ (9,647,105)	$ (9,717,572)	$ (9,919,801)	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)

[1] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments. The balance of $192 is related to a one-time transfer for the Moore Settlement.

[2] Fiscal years 2013, 2015, 2017, and 2018 deficits at beginning of year are restated amounts.

Schedule 3 - Revenues by Source
Last Ten Fiscal Years
(dollars in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,344,650	$ 1,420,464	$ 1,395,147	$ 1,299,794	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915
Medical Aid	825,943	870,331	855,218	820,177	779,315	695,460	624,913	596,421	614,714	601,087
Supplemental Pension	427,669	391,670	367,623	340,034	321,967	316,448	302,915	318,328	318,835	264,934
Net retrospective rating refunds	(240,184)	(195,578)	(169,105)	(156,378)	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)
Ceded premiums reinsurance[5]	(5,175)	-	-	-	-	-	-	-	-	-
Total State Fund Premiums	2,352,903	2,486,887	2,448,883	2,303,627	2,144,108	2,002,192	1,897,327	1,803,910	1,775,052	1,521,442
Self-Insurance Assessments	259,850	238,009	248,852	212,629	193,375	198,218	226,156	210,931	208,296	206,280
Total Premiums and Assessments	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722
Investments [1]										
Investment income (interest and dividend)	$ 506,216	$ 479,112	$ 482,427	$ 503,057	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143
Investment balances	$ 18,514,794	$ 16,769,383	$ 16,406,236	$ 15,587,449	$ 14,634,116	$ 14,502,551	$ 13,381,566	$ 13,321,822	$12,512,715	$11,894,375
Average rate of return	2.7%	2.9%	2.9%	3.2%	3.4%	3.3%	3.5%	3.7%	4.0%	4.2%

CALENDAR YEAR	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Average Standard Premium Rates [2] **(Per Hour Worked) - Effective from January 1 to December 31**										
Accident	0.3305	0.3564	0.3739	0.3691	0.3597	0.3601	0.3601	0.3601	0.3530	0.2720
Medical Aid	0.1959	0.2113	0.2179	0.2179	0.2179	0.2107	0.1905	0.1905	0.1897	0.2115
Supplemental Pension	0.1116	0.1026	0.0958	0.0950	0.0894	0.0909	0.0928	0.0932	0.1077	0.0969
Stay At Work [3]	0.0047	0.0045	0.0046	0.0055	0.0073	0.0073	0.0080	0.0076	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6427	0.6748	0.6922	0.6875	0.6743	0.6690	0.6514	0.6514	0.6504	0.5804
Employer portion	0.4484	0.4739	0.4871	0.4907	0.4734	0.4600	0.4578	0.4626	0.4588	0.3853
Worker portion	0.1561	0.1592	0.1592	0.1592	0.1573	0.1545	0.1457	0.1457	0.1487	0.1542
State Fund Average Hourly Wage	$ 36.11	$ 34.55	$ 30.76	$ 30.01	$ 28.64	$ 27.91	$ 26.79	$ 26.26	$ 25.40	$ 24.51
Composite Net of Retro Rate per $100 Payroll [4]	$ 1.67	$ 1.83	$ 2.10	$ 2.17	$ 2.20	$ 2.20	$ 2.25	$ 2.32	$ 2.39	$ 2.20

[1] These amounts reflect only investments managed by the Washington State Investment Board.

[2] These rates are for State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.

[3] Stay at Work rate started in calendar year 2012.

[4] This figure equals the composite net of Retro rate divided by State Fund average hourly wage.

[5] The Workers' Compensation Program purchased reinsurance in calendar year 2019.

Sources: Washington State Agency Financial Reporting System
Washington Department of Labor & Industries Actuarial Services

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employers insured	182,000	178,000	176,000	177,000	174,000	169,000	168,000	166,000	163,000	163,000
Workers covered	3,049,000	2,993,000	2,914,000	2,800,000	2,690,000	2,577,000	2,487,000	2,420,000	2,360,000	2,330,000
Hours reported	4,008,000,000	3,935,000,000	3,824,000,000	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000
Self-insured employers	349	351	356	355	355	355	363	365	360	363
Workers covered under self-insured employers	910,318	949,963	909,405	872,000	865,000	884,000	846,000	845,000	821,000	826,000
Industry Classifications - NAICS Sector										
Construction	27,200	26,100	25,309	23,562	22,460	21,998	21,229	21,191	21,631	21,963
Prof., scientific, and technical services	26,200	25,100	24,500	22,801	22,074	21,474	20,035	19,960	19,278	17,839
Other services (except public administration)	17,200	17,000	17,103	16,749	16,541	16,511	16,353	16,613	16,391	15,660
Accomodation and food services	15,600	15,300	15,215	15,147	15,007	15,013	14,843	14,929	14,579	13,929
Health care and social assistance	15,400	15,100	15,158	15,009	14,672	14,611	14,538	14,754	14,642	13,807
Retail trade	15,000	15,300	15,654	15,645	15,796	16,146	16,219	16,627	16,385	15,779
Administrative and support services	13,100	12,600	12,454	11,706	11,399	11,138	10,458	10,459	10,018	9,447
Wholesale trade	11,300	11,200	11,383	10,483	10,832	10,652	10,189	10,450	10,218	9,163
Real estate, rental and leasing	7,130	7,000	7,033	6,828	6,765	6,721	6,642	6,627	6,719	6,563
Agriculture, forestry, fishing, and hunting	6,830	7,000	7,151	7,202	7,069	6,980	7,141	7,238	7,258	7,284
Manufacturing	6,650	6,620	6,722	6,559	6,603	6,604	6,670	6,717	6,694	6,615
Finance and insurance	5,190	5,140	5,078	4,873	4,997	5,017	5,003	5,073	5,110	4,998
Transportation and warehousing	4,280	4,240	4,189	5,636	6,130	6,106	5,753	5,569	4,095	3,833
Education services	3,370	3,210	3,089	2,991	2,907	2,769	2,653	2,618	2,487	2,177
Arts, entertainment, and recreation	3,010	2,930	2,934	2,866	2,742	2,715	2,624	2,655	2,568	2,418
Information	2,400	2,390	2,159	2,090	2,144	2,147	2,114	2,107	1,836	1,746
Public administration	990	1,010	1,059	5,387	2,265	985	3,816	382	1,512	8,016
Unclassified establishments	470	480	1,024	1,025	1,027	1,028	1,026	1,030	1,040	1,042
Utilities	350	350	357	356	359	357	355	352	344	338
Mgmt. of companies and enterprises	220	200	193	169	158	150	144	133	118	103
Mining	150	150	156	159	167	172	177	180	178	176
Total Employer Accounts	182,040	178,420	177,920	177,243	172,114	169,294	167,982	165,664	163,101	162,896

Note: The data is a snapshot of the fiscal year ending July 1 - June 30, using data through September 30 following fiscal year close.

Sources: Washington State Department of Labor & Industries Actuarial Services
Washington State Department of Labor & Industries Self Insurance Certification Services

Schedule 5 - Ratios of Outstanding Debt
Last Ten Fiscal Years
(dollars in thousands, except per covered worker)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Outstanding Debt										
General obligation bonds [1]	$ -	$ -	$ -	$ -	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110
Debt Ratios										
Principal paid on total debt	$ -	$ -	$ -	$ 4,050	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820
Ratio of principal paid to total prior year debt	0.0%	0.0%	0.0%	100.0%	48.5%	31.4%	22.9%	17.7%	18.2%	14.7%
Interest paid on total debt	$ -	$ -	$ -	$ 110	$ 325	$ 527	$ 717	$ 897	$ 1,143	$ 1,346
Ratio of interest paid to total prior year debt	0.0%	0.0%	0.0%	2.7%	4.1%	4.6%	4.8%	5.0%	5.2%	5.2%
Premiums and assessments earned	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722
Ratio of total debt to premiums and assessments earned	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.5%	0.7%	0.9%	1.3%
Total debt per covered worker [2]	$ -	$ -	$ -	$ -	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49

[1] Bonds were paid in full in fiscal year 2016.
[2] Covered worker data can be found in Schedule 4.

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable
Last Ten Fiscal Years
(in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 27,774,303	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,105,190	2,111,642	2,062,195	2,048,491	2,102,923	1,910,196	1,924,011	1,823,525	1,950,485	2,204,709
Increase (decrease) in provision for insured events of prior fiscal years	1,658,960	1,333,719	968,518	975,846	711,211	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787
Total incurred claims and claim adjustment expenses	3,764,150	3,445,361	3,030,713	3,024,337	2,814,134	2,953,508	3,150,517	1,731,341	1,016,932	4,100,496
Less: Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	321,422	325,933	309,490	303,784	300,862	296,885	296,347	283,763	288,812	297,520
Insured events of prior fiscal years	2,050,212	1,985,663	1,933,011	1,934,376	1,884,657	1,846,649	1,822,960	1,794,539	1,810,641	1,783,933
Total payments	2,371,634	2,311,596	2,242,501	2,238,160	2,185,519	2,143,534	2,119,307	2,078,302	2,099,453	2,081,453
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 29,166,819	$ 27,774,303	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832

[1] Claims payable liabilities are reported net of recoveries.

Source: Washington Department of Labor & Industries Actuarial Services

Schedule 7 - Washington State Population and Components of Change

Last Ten Calendar Years

(in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Population	7,546.4	7,427.6	7,310.3	7,183.7	7,061.4	6,968.2	6,882.4	6,817.8	6,767.9	6,724.5
Net increase	118.8	117.3	126.6	122.3	93.2	85.8	64.6	49.9	43.4	52.3
Percent change	1.6%	1.6%	1.8%	1.7%	1.3%	1.3%	1.0%	0.7%	0.6%	0.8%
Components of change										
Births	87.1	92.0	90.8	89.8	88.5	87.0	87.3	87.1	86.4	88.4
Deaths	58.3	58.4	56.5	54.7	52.8	50.7	51.1	49.2	48.8	47.7
Net migration	90.1	83.7	92.4	87.1	57.6	49.5	28.5	12.0	5.8	11.5

Note: Washington State population estimates are as of April 1 of each year. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 through 2019 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Sources: Washington State Office of Financial Management
U.S. Census Bureau, Population Division

Schedule 8 - Washington State Personal Income
Last Ten Calendar Years
(dollars in billions, except per capita)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Personal income	$ 458	$ 429	$ 404	$ 385	$ 363	$ 336	$ 329	$ 304	$ 287	$ 279
Percent change	7%	6%	5%	6%	8%	2%	8%	6%	3%	-5%
Per capita	$ 60,781	$ 57,743	$ 55,415	$ 53,969	$ 51,465	$ 48,240	$ 47,723	$ 44,555	$ 42,524	$ 41,851

Note: The Bureau of Economic Analysis periodically revises its personal income data for periods up to 10 years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Schedule 9 - Washington State Unemployment Rate
Last Ten Calendar Years
(in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Civilian labor force	3,791	3,719	3,644	3,545	3,488	3,457	3,463	3,482	3,515	3,535
Less Employed	3,620	3,544	3,451	3,346	3,275	3,217	3,185	3,162	3,167	3,206
Total unemployed	171	175	193	199	213	240	278	320	348	329
Unemployment rate	4.5%	4.7%	5.3%	5.6%	6.1%	6.9%	8.0%	9.2%	9.9%	9.3%

Note: The Washington State Economic and Revenue Forecast Council periodically revises its civilian labor force and employment data for periods up to 5 years.

Source: Washington State Economic and Revenue Forecast, June 2019

Schedule 10 - Washington State Principal Employers by Industry
Last Calendar Year and Nine Years Ago

	2018 Annual Averages			2009 Annual Averages		
Industry [1]	**Number of Employees** [2]	**Percent of Total**	**Number of Employers**	**Number of Employees** [2]	**Percent of Total**	**Number of Employers**
Government	561,377	16.6%	2,111	525,176	18.5%	2,065
Healthcare and social assistance [3]	421,651	12.5%	54,943	319,440	11.3%	14,027
Retail trade	379,684	11.3%	14,293	304,268	10.7%	14,228
Manufacturing	284,064	8.4%	7,481	262,508	9.3%	7,020
Accommodation and food services	283,084	8.4%	14,533	220,324	7.8%	12,656
Professional, scientific, and technical services	201,607	6.0%	25,730	155,746	5.5%	18,169
Construction	200,006	5.9%	25,714	148,731	5.2%	23,230
Administrative and support services [4]	168,668	5.0%	12,189	128,328	4.5%	9,416
Wholesale trade	133,599	4.0%	12,759	120,198	4.2%	12,994
Information	133,107	3.9%	4,023	103,077	3.6%	2,461
Agriculture, forestry, fishing, and hunting	106,996	3.2%	7,024	89,624	3.2%	7,375
Transportation and warehousing	103,495	3.1%	4,582	80,448	2.8%	4,040
Other services [3]	99,108	2.9%	18,751	121,497	4.3%	54,776
Finance and insurance	94,508	2.8%	5,818	92,702	3.3%	5,836
Real estate, rental and leasing	53,437	1.6%	6,938	46,347	1.6%	6,446
Arts, entertainment, and recreation	52,894	1.6%	2,826	45,322	1.6%	2,427
Management of companies and enterprises	44,609	1.3%	631	32,162	1.1%	622
Education services	44,073	1.3%	3,320	33,122	1.2%	2,286
Utilities	5,036	0.1%	224	5,037	0.2%	228
Mining	2,572	0.1%	142	2,298	0.1%	165
Total average employment [5]	3,373,575	100%	224,032	2,836,355	100%	200,467

[1] Industry classifications are based on North American Industry Classification System (NAICS) codes. The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

[2] The number of employees is based on annual averages and represents only employees covered by unemployment insurance.

[3] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as other services. Effective January 2014, these were classified correctly as healthcare and social assistance. This reclassification caused the annual average number of employees to increase. Employee classified as other services do not include public administration.

[4] Employment classified under administrative and support services includes waste management and remediation services.

[5] Total employment is based on annual averages and may not include private firms or disclosure of individual employers.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 11 - Washington State Annual Average Wages by Industry
Last Ten Calendar Years

Industry [2]	Annual Average Wages [1] 2018 [3]	2017	2016	2015	2014	2013	2012	2011	2010	2009
Information	$ 194,863	$ 172,592	$ 159,236	$ 150,503	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777	$ 105,715
Management of companies and enterprises	118,097	111,942	109,462	108,447	106,518	105,501	105,535	102,009	95,731	87,642
Professional, scientific, and technical services	101,410	92,323	88,223	85,968	84,883	81,893	79,972	77,178	75,376	71,837
Utilities	99,718	93,057	88,789	85,644	87,212	86,373	84,024	82,058	77,591	84,410
Finance and insurance	95,089	90,869	88,308	92,790	82,102	79,587	77,455	73,154	70,137	71,304
Wholesale trade	80,439	76,856	73,903	72,523	70,169	68,230	68,481	65,831	63,348	61,569
Manufacturing	79,377	76,301	74,641	73,860	74,303	70,798	69,306	68,065	64,925	62,931
Mining	71,083	71,120	67,389	67,425	63,404	62,444	60,231	58,871	55,654	52,981
Construction	64,470	61,227	58,887	56,925	55,037	53,735	53,056	52,304	51,127	51,043
Government	63,832	61,187	58,945	57,274	55,603	53,733	52,871	52,174	51,394	50,420
Transportation and warehousing	60,374	58,058	56,173	54,344	52,293	51,967	50,876	49,628	47,743	46,522
Retail trade	58,866	52,542	45,930	38,300	36,127	34,084	32,364	30,917	30,021	29,356
Real estate, rental and leasing	55,188	51,553	48,965	47,459	45,181	43,426	42,040	39,816	38,359	36,777
Healthcare and social assistance [4]	52,690	50,971	49,337	46,986	44,245	47,733	47,067	45,852	44,673	43,561
Administrative and support services [5]	50,370	48,484	47,050	45,934	44,382	43,261	43,381	42,942	41,466	39,571
Other services [4]	40,410	38,832	37,557	37,437	35,571	26,717	25,651	24,549	24,227	24,881
Education services	39,008	38,455	37,667	36,414	36,918	36,775	36,226	35,576	35,158	34,505
Arts, entertainment, and recreation	32,522	32,074	30,908	30,509	29,725	27,771	25,276	25,023	25,121	25,527
Agriculture, forestry, fishing, and hunting	32,405	31,154	29,971	28,398	27,758	26,880	26,295	25,097	24,034	23,675
Accommodation and food services	24,003	22,766	21,301	20,451	19,561	19,136	18,698	18,062	17,632	17,063

[1] Wages include only employment covered by unemployment insurance. Wages may not include individual private firms or disclosure of employers.
[2] Industry classifications and wages are based on North American Industry Classification System (NAICS) codes.
[3] 2018 data is preliminary.
[4] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as "other services". Effective January 2014, these were classified correctly as "healthcare and social assistance". This reclassification caused the average annual wage for "other services" to increase. Wages classified as other services do not include public administration.
[5] Wages classified under administrative and support services include waste management and remediation services.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Male injured workers	66%	67%	67%	67%	67%	67%	67%	67%	66%	66%
Female injured workers	34%	33%	33%	33%	33%	33%	33%	33%	34%	34%
Average age of injured workers	38	38	38	38	38	38	38	38	38	38
Injured workers younger than 30	31%	31%	29%	29%	29%	28%	27%	27%	28%	29%
Injured workers 30 to 50	43%	44%	44%	45%	45%	46%	46%	46%	47%	48%
Injured workers older than 50	24%	24%	25%	24%	24%	24%	24%	24%	23%	22%
Injured workers age unknown	1%	1%	1%	2%	2%	2%	2%	2%	2%	1%

Notes:
Because of rounding, some columns may not add up to 100%.
The data is a snapshot of the fiscal year ending June 30 as of the following September. Before Fiscal Year 2012, the data is as of the first week of the following October.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 13 – L&I Number of Employees by Division
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Administrative Services	160	134	131	136	132	127	122	121	169	172
Business Transformation	28	18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Communications & Web Services	60	61	54	54	51	47	N/A	N/A	N/A	N/A
Director's Office	26	28	35	32	31	31	141	87	92	93
DOSH	367	361	345	349	355	356	344	341	330	335
Field Services & Public Safety	7	6	6	7	4	4	N/A	N/A	N/A	N/A
Financial Management	54	50	53	54	53	50	N/A	N/A	N/A	N/A
Fraud Prevention & Labor Standards	144	144	125	132	131	122	86	85	83	84
Human Resources	57	56	52	54	54	46	44	46	45	45
Information Technology	213	213	199	208	201	194	175	173	171	178
Insurance Services	1,123	1,119	1,090	1,101	1,076	1,048	955	990	945	944
New legislation	N/A	N/A	2	6	12	6	93	58	N/A	N/A
Region 1	57	56	58	58	60	60	61	59	56	57
Region 2	100	102	96	100	102	101	100	102	102	102
Region 3	52	50	51	52	54	55	55	54	56	59
Region 4	72	68	70	70	70	70	71	74	70	72
Region 5	72	68	70	72	72	68	71	71	71	71
Region 6	38	39	40	39	39	38	39	40	41	42
Specialty Compliance Services	N/A	N/A	N/A	N/A	N/A	N/A	37	38	37	40
Total	2,630	2,573	2,477	2,524	2,497	2,423	2,394	2,339	2,268	2,294

Notes:
The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,080 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in the Department of Labor & Industries. It is a computed average number of employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

In fiscal year 2014, the Department of Labor & Industries reorganized some divisions. Communications & Web Services and Financial Management were separated from the Director's Office, and Specialty Compliance Services was split and merged into Fraud Prevention & Labor Standards and Field Services & Public Safety.

In fiscal year 2018, Business Transformation was added in order to align employees, processes, and technology with a focus on meeting the needs of customers. Business Transformation will simplify and standardize processes and systems across the agency and provide training and support to deliver the highest quality service. This will make it easier for customers to do business with L&I and easier for our employees to do their jobs.

Source: Fiscal Interactive Reporting System

Schedule 14 - Capital Asset Indicators – Business Locations
Last Ten Calendar Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	18	18	18	19	19
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	2	2	2	2	2	2	2	2	1	1

*Field offices do not include Tumwater Region 4 field office in Tumwater headquarters.

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claim Statistics and Five Most Frequent Injuries
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Claim Statistics										
Number of Claims Filed [1]	111,837	111,604	109,965	110,498	109,359	106,903	103,328	101,524	100,690	102,734
Number of Claims Accepted [1, 2]	94,681	95,213	94,128	95,277	82,707	86,968	84,064	84,863	81,274	86,184
Number of Claims Denied [1, 2]	16,814	16,504	15,981	16,760	14,098	14,593	14,077	13,857	12,762	12,703
Fatal Pensions Awarded	44	36	50	48	61	51	44	35	59	45
Total Permanent Disability Pensions Granted	890	886	1,062	1,047	1,063	1,085	1,614	925	1,036	937
Permanent Partial Disability Awards Granted	8,784	9,312	10,038	10,280	10,769	10,431	10,760	11,524	11,782	11,452
New Time-loss (Wage Replacement) Claims [3]	16,498	17,812	18,782	19,065	19,509	20,049	19,740	20,205	21,377	22,604
Medical-only Claims Accepted	80,494	79,888	78,054	78,816	66,411	69,752	67,171	67,539	63,308	66,885
Retraining Plans Completed [4]	313	347	411	438	474	501	1,740	1,665	1,667	1,229
Total Days Paid for Lost Work	5,519,390	5,732,712	6,102,780	6,475,281	6,841,091	7,054,849	7,521,311	7,850,982	8,099,675	8,121,263
Five Most Frequent Injuries										
Finger(s): open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	11,114	11,076	10,809	11,068	9,429	9,459	8,665	8,761	7,974	8,641
Back, spine, and spinal cord: traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,820	11,187	10,930	11,652	10,624	10,466	10,247	10,829	10,227	12,026
Leg(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	4,289	4,148	4,083	3,939	3,696	3,802	3,614	3,484	3,362	3,774
Shoulder(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., including clavicle, scapula (includes injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	4,241	4,265	4,133	4,126	3,728	3,646	3,441	3,457	-	3,501
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	4,148	-	-	-	-	-	-	-	3,314	-
Face: surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	-	3,824	3,724	4,056	3,473	3,611	3,723	3,775	3,320	3,753

Note: The data is a snapshot of the fiscal year ending June 30 as of the following September. Before fiscal year 2012, the data is as of the first week of the following October.

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed as there are claims in "provisional" status where the decision to accept or deny has yet to be made.

[2] Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.

[3] Counts of new time-loss (wage replacement) claims reflect actions in that year regardless of when claim was filed.

[4] Beginning in fiscal year 2014, the statistics reported are for retraining plans successfully completed. The previous years include all training plans whether completed successfully or not.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims
Last Ten Fiscal Years

Risk Class	Risk Class Description	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
3905	Restaurants and Taverns	8,178	7,790	7,678	7,679	7,521	7,195	6,937	6,711	6,440	6,691
4803	Orchards	3,528	3,849	3,204	3,361	3,397	3,079	2,867	2,654	2,152	2,051
6109	Physicians & Medical Clinics	2,369	2,306	2,291	2,121	2,111	2,217	2,139	2,177	2,263	2,218
6509	Boarding Homes and Retirement Centers	2,283	2,351	2,326	2,432	2,373	2,503	2,408	2,484	2,400	2,439
3411	Automobile Dealers, Rentals and Service Shops	1,712	1,730	1,641	1,667	1,579	1,538	1,560	1,490	1,592	1,602
0510	Wood Frame Building Construction	1,679	1,738	1,613	1,548	1,511	1,345	1,286	1,137	1,210	1,325
0516	Carpentry, N.O.C.	1,624	1,429	1,351	1,352	1,259	1,046	952	862	761	901
2104	Fruit & Vegetable Packing - Fresh	1,549	1,747	1,556	1,689	1,862	1,561	1,481	1,305	1,246	1,309
6108	Nursing Homes	1,530	1,584	1,631	1,818	1,873	2,040	2,078	2,080	2,186	2,272
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,512	1,437	1,413	1,390	1,300	1,339	1,346	1,392	1,432	1,344
6107	Veterinary Services	1,497	1,321	1,169	1,058	995	950	894	832	756	700
4906	Colleges & Universities	1,458	1,524	1,539	1,750	1,715	1,758	1,710	1,816	1,772	1,845
4910	Property and Building Management Services	1,431	1,305	1,354	1,281	1,276	1,241	1,273	1,292	1,240	1,285
1101	Parcel and Package Delivery Service	1,370	1,215	1,237	1,104	985	969	957	965	957	893
2102	Warehouses, N.O.C., Grocery Dist, & Recycle Centers	1,302	1,344	1,181	891	748	670	565	596	611	557
0601	Electrical Wiring: Buildings and Structures	1,269	1,222	1,117	1,091	1,064	931	923	875	937	986
3402	Machine Shops and Machinery Mfg., N.O.C.	1,150	1,162	1,109	1,354	1,310	1,328	1,262	1,328	1,228	1,145
0307	HVAC Systems, Installation, Service and Repair	1,148	1,071	1,018	934	857	857	785	733	799	801
4905	Motels and Hotels	1,114	1,104	1,171	1,174	1,136	1,143	1,122	994	1,020	963
6511	Chore Services	1,075	906	976	948	887	976	924	921	961	935
6402	Supermarkets	1,070	987	959	956	1,020	1,014	886	794	824	881
6602	Janitorial Service	1,040	1,069	1,060	1,001	1,002	971	934	986	945	849
0518	Non Wood Frame Building Construction	1,035	1,085	863	1,006	914	756	690	609	643	762
5307	State Government - All Other Employees, N.O.C.	971	933	976	890	851	919	941	1,076	1,229	1,196
1102	Trucking, N.O.C.	960	1,011	1,139	1,032	1,046	1,030	1,040	1,105	1,154	1,175
6406	Retail Stores, N.O.C.	957	991	1,010	946	985	1,017	931	1,011	1,009	1,201
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	898	886	833	1,010	961	783	740	729	749	836
6309	Hardware, Auto Parts and Sporting Good Stores	874	1,007	1,065	1,057	1,054	1,065	1,090	1,082	1,036	1,080
0306	Plumbing	871	902	926	818	883	758	728	766	763	794
2903	Wood Products Manufacturing, N.O.C.	770	825	857	793	822	817	725	733	679	711
3405	Aircraft Parts Manufacturing, N.O.C.	716	719	746	816	824	800	866	802	669	635
4904	Clerical Office, N.O.C.	663	775	739	824	883	1,013	1,012	1,113	1,163	1,205

Notes:

N.O.C. stands for not otherwise classified.

These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of June 30, 2019.

The Risk Class is that which is assigned to the claim. Per Washington Administrative Code (WAC) 296-17-31002, a Risk Class is defined as, "A grouping of businesses or industries having common or similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations, some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplemental Audit Report

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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October 3, 2019

Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am a Member of the American Academy of Actuaries and meet its qualification standards for issuing Statements of Actuarial Opinion. I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried Generally Accepted Accounting Principles ("GAAP") loss and loss adjustment expense ("LAE") reserves as of June 30, 2019.

The Program is comprised of four Workers' Compensation Program Accounts: the Accident Account, the Medical Aid Account, the Pension Reserve Account, and the Supplemental Pension Account. The Program is currently administered by State of Washington Department of Labor & Industries ("the Department").

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2019. I have reviewed the June 30, 2019 loss and loss adjustment expense recorded under U.S. Governmental Accounting Standard GAAP. My review considered information provided to me through the date of this opinion.

In forming my opinion on the loss and LAE reserves, I relied upon data provided by Mr. William Vasek, the Department's Chief Actuary, his actuarial staff, and Sharon Elias, the Department's Financial Services Program Manager. I evaluated that data for reasonableness and consistency. My examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

My review was limited to the reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

A summary of the Program's recorded loss and LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2019 is as follows:

Accident Account	$ 4,541,872,000
Medical Aid Account	4,103,675,000
Pension Reserve Account	5,304,272,000
Total Basic Plan Loss and LAE Reserves	$13,949,819,000
Supplemental Pension Account	15,217,000,000
Total Program Loss and LAE Reserves	$29,166,819,000

In my opinion, the loss and LAE amounts in total listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2019:

(A) meet the requirements of the insurance laws of the State of Washington;

(B) are consistent with reserves computed in accordance with accepted actuarial standards and principles;

(C) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Program under the terms of its contracts and agreements.

Relevant Comments

A. Company-Specific Risk Factors

Actuarial Estimates of property and casualty loss and loss adjustment expense reserves are inherently uncertain because they are dependent on future contingent events. Also, the estimates of unpaid claims are generally derived from analyses of historical data, and future events or conditions may differ from the past. The actual amount necessary to settle the unpaid claims may therefore be significantly different from the reserve amounts listed in Exhibit A.

The major factors and/or particular conditions underlying the risk and uncertainties that I consider relevant to the Company's estimates of unpaid losses and loss adjustment expenses as of June 30, 2019 are described in the sections below. These include but are not necessarily limited to the following items.

By statute, the Fund's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Fund's loss and loss adjustment expense reserves. Such trends would include legislative benefit level changes and adverse decisions or interpretations of law that may have an effect on all open workers' compensation claims.

A major assumption in the analysis of the medical component of the workers' compensation reserves is the selection of a long-term medical trend factor to apply to future calendar year medical payments. Estimating medical trend is difficult because it is highly variable. In my opinion, there is a higher than normal degree of variability associated with the Fund's medical loss reserves due to the uncertainty surrounding future medical trends and the expected length of medical payments.

The Department discounts the loss and LAE reserves to reflect the time value of money using an average annual interest rate of 2.17%. Changes to the interest rate used for discounting could result in material changes to the reserves. We note that the current risk free interest rate matching the duration of these liabilities (approximately 16.6 years) was 2.21% as of June 30, 2019.

A major assumption in the analysis of the Supplemental Pension Account and Pension Reserve Account is future cost of living adjustments and the implicit assumption that the State of Washington cost of living adjustments will be similar to cost of living adjustments approved by the Federal Government for Social Security retirement benefits. Future State of Washington cost of living adjustments different from those anticipated or that vary significantly from those approved by the Federal Government for Social Security retirement benefits could result in a material change in future costs and the adequacy of the reserves.

The Program is exposed to the uncertainty of variability of the reserves which could result in material adverse deviation. I have identified those risk factors as the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, and future cost of living adjustments. These risk factors are described in greater detail in the preceding paragraphs and in the report supporting this opinion. The absence of other risk factors from this commentary is not meant to imply that additional factors cannot be identified in the future as having had a significant influence on the Program's reserves.

B. Other Disclosures

Pension Liabilities for State Employees

Statutory Accounting Principles ("SAP") do not require the Program to record a separate liability for the unfunded State employee pensions. However, the Program under SAP recognizes a portion of the unfunded state employee pension in the claims administrative expense ("CAE") liability for the portion pertaining to its claims administration.

GAAP requires the Program to record a liability for the total unfunded state employee pensions in its Comprehensive Annual Financial Report ("CAFR") as of June 30, 2019. The CAE liability in the CAFR does not include any of the unfunded State employee pensions so as to not double count the liability. This difference in accounting results in a GAAP CAE liability that is approximately $17.0 million less than the SAP CAE liability.

Therefore, the GAAP reserve shown above upon which I am expressing an opinion excludes the liabilities for the unfunded State employee pensions for staff administering claims. The amounts excluded total $16,968,000 ($5,143,000 for the Accident Account and $11,825,000 for the Medical Aid Account).

Discounting

The Department discounts the loss and LAE reserves to reflect the time value of money. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rates as follows.

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For "state fund pensions" within the Pension Reserve Account, the Department's selected interest rate is 4.5%.
- For "self-insured pre-funded pensions" within the Pension Reserve Account, the Department's selected interest rate is 6.0% according to the Washington administrative code rule WAC 296-14-8810. The rates selected for self-insured pre-funded pensions is allowed to be different from the rate selected for state fund pensions according to SB6393.
- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Reserve Account assume interest discounts based on an annual rate of 4.5%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.
- For the Supplemental Pension Account, the Department's selected interest rate is 1.5%.

The average combined interest rate for the Program is approximately 2.17% with a total discount amount of $11.0 billion. The interest rates were selected by the Department, and I make no opinion regarding the appropriateness of the selected rates. We note that the current risk free interest rate matching the duration of these liabilities was 2.21% as of June 30, 2019.

The interest rates used this year remained the same for all liabilities except for the self-insured pre-funded pensions within the Pension Reserve Account that changed from 6.1% last year to 6.0% this year. The effect of reducing this interest rate assumption this year was an increase in the discounted reserve of $6.4 million.

Underwriting Pools or Associations

The Program participates in the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan ("WARP") which was established to provide USL&H workers' compensation insurance coverage for employers unable to purchase it through the normal private insurance market. The Program pays assessments to WARP and participates in any underwriting losses or surpluses incurred by WARP. Based on discussions with the Department, we understand that WARP is not currently in a deficit position. Therefore, the Program has not booked a reserve to account for any unpaid claim liability related to WARP.

We understand that the Program does not participate in any other voluntary or involuntary pools.

Reinsurance Collectability

Use of ceded reinsurance is minimal and is limited to catastrophic events and terrorism coverage at high limits in older years and once again purchased effective February 1, 2019. The reinsurance program consists of two excess of loss contracts. The first excess of loss contract covers catastrophic or terrorism events that exceed $200 million up to $500 million per occurrence. The second excess of loss contract covers catastrophic or terrorism events that exceed $500 million up to $1.0 billion per occurrence. All reinsurers are rated **A** or better by **AM Best**. As of June 30, 2019, Company management has informed me that it is not aware of any catastrophic events that would trigger a reinsurance recovery. Therefore, there are currently no ceded reserves recorded as of June 30, 2019 and no reinsurance collectability problems. With respect to loss and loss adjustment expense reserves net of ceded reinsurance, I have not anticipated any contingent liability which could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with the Company.

Reinsurance

Based on discussions with the Department's management and their description of the Fund's ceded (and/or assumed) reinsurance, I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

Major Assumption Changes and Other Comments

The Supplemental Pension Account COLA adjustment for fiscal year 2020 of 5.52% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2018 wages. By statute, the COLAs are based on the annual calendar year change to the states' average wages. This year, the Department judgmentally selected the COLA adjustment for fiscal year 2021 to be 4.1% and then consistent with last year projects the COLA adjustments for fiscal years 2022 through 2029 by using a linear interpolation between the average of the most recent ten years of COLA adjustments (3.52%) and a long term constant COLA adjustment assumption of 1.5%. For projected COLA adjustments subsequent to fiscal year 2029, the Department uses the long term assumption of 1.5% per year. Although this is a consistent approach to last year's analysis, we note that updating the future COLA assumptions caused the Supplemental Pension Account liability to increase by $1.1 billion.

In addition, we note that if the Department used the current fiscal year COLA adjustment (or 5.52%) instead of the most recent ten year average of COLA adjustments (or 3.52%) as the starting point of the linear interpolation to 1.5%, the Supplemental Pension Account estimate of unpaid claims would have been $1.7 billion higher.

During our review of the Supplemental Pension Account, we considered the Department's selection of future COLA adjustments. The Department's selections are lower than the most recent or long term historical average of COLA adjustments. For example, the simple average of the most recent 15 years of COLA adjustments is 3.53% with annual changes varying between 2.79% (at the 30th percentile) and 4.65% (at the 70th percentile). These COLA adjustments have been at this level while interest rate and/or inflation rate changes have been declining during this same time period. The materiality of this assumption is significant given that selecting the most recent 15 year historical average COLA adjustment of 3.53% would increase the Supplemental Pension Account discounted liability by $6.5 billion. The Department has assumed that there will be a significant correlation between changes in the future COLA adjustments and changes in the interest rates in the future even though the correlation between the two has been weak at best in the past.

It is difficult to determine the reasonableness of this future correlation considering it has not occurred in the past. Therefore, we have decided to consider the reasonableness of the Supplemental Pension Account liability (and thus the total GAAP liability) assuming the historical average COLA adjustments. In doing so, we believe that the selection of the COLA adjustment should not be considered in isolation but in conjunction with the selection of the interest rate used to discount the liabilities.

The Department's average interest rate used to discount the GAAP reserves is 2.17%. The risk free interest rate that matches the duration of these liabilities (approximately 16.6 years) as of June 30, 2019 is 2.21% which is higher than the Department's selected 2.17% but not enough to offset the low future COLA assumptions discussed above. Although there is a current disconnect between the current risk free interest rate and the Department's chosen discount rate, we do agree with the Department that wages long term (and thus COLA Adjustments) will move in the same direction as inflation and the risk free interest rates. In addition, we believe that there are alternative approaches to calculating the risk free interest rate used to discount the liabilities that would be high enough to offset the low future COLA assumptions the Department is currently using. Therefore, we conclude that the GAAP reserves are reasonable overall.

Over the past few years the claim count persistency rates (i.e. number of active time-loss claims) have continued to decline. The Department's actuarial methodologies for certain types of claim categories (i.e. medical, time-loss, and total permanent disability) are highly dependent on a future estimate of the persistency rates. The future persistency rate assumptions selected over the past year by the Department have dropped to reflect the actual recent changes or declines in the persistency rates. This drop in assumption has caused a decrease in the estimate of unpaid claims even more than what would be indicated in the favorable paid amounts over the past year.

Effective May 15, 2019, there was a rule change (WAC 296-20-1101) that caused an increase in the estimate of unpaid hearing loss claims. The new rule requires the replacement of hearing aids upon request five years after the issue date of the current hearing aid and battery replacement for the life of the hearing aid. Previously, the Department or self-insurer was only required to bear the cost of repairing or replacement of the hearing aid due to normal wear and tear at its discretion. In addition, the Department in prior years would project the number of active hearing loss claims based on historical claim emergence patterns to age three and then assume active counts would decline after three years according to its internal spouse mortality tables. This year, the Department extended the projection of active hearing loss claims based on historical claim emergence patterns to age 12 before assuming the active counts would decline according to its internal spouse mortality tables. The combined effect of the rule change ($31.7 million) and the change in assumption ($28.3 million) is approximately $60.0 million as of June 30, 2019.

Beginning in fiscal year 2020, the Department will initiate a Workers' Compensation System Modernization (WCSM) project to update its policy, administration, and claim systems. The anticipated cost of WCSM is approximately $300 million over the next ten fiscal years. The Department assumes that approximately 2/3 of the cost will be claims related and will expense the allocated State Fund costs (i.e. excluding costs allocated to self-insureds) through its claims administration expense (CAE). The CAE related cost has been distributed to both future and historical fiscal accident years. The estimated amount allocated to fiscal years 2019 and prior and included in the reserves as of June 30, 2019 totals $74.8 million on a discounted basis and $78.2 million on an undiscounted basis.

C. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and LAE, it is necessary to project future loss and LAE payments. It is certain that actual future losses and LAE will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur. Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Program's historical data base or which are not yet quantifiable.

This Statement of Actuarial Opinion regarding GAAP reserves is solely for the use of assessing the reasonableness of the GAAP loss and LAE reserves and is only to be relied upon by the Program and the State of Washington.

Rod Morris

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October 3, 2019

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